



Control Number: 51415



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### III – Evaluation Approach for AEPSC Charges

#### Baryenbruch & Company, LLC, Evaluation Approach

During Test Year 2020, AEPSC charged SWEPCO approximately \$172.4 million, which breaks down between O&M and non-O&M charges as follows:

	Test Year 2020
O&M	\$ 92,509,781
Capital/Balance Sheet	\$ 79,914,877
Total	\$ 172,424,658

Source: AEPSC information

The reasonableness of these charges and the necessity of AEPSC's services provided during the test year are tested in several ways, as summarized in the table below.

Report Chapter	Topics Covered	Addresses	
		Necessary	Reasonable
IV Analysis of AEPSC Cost Trends	Major drivers of AEPSC cost trends		X
V Need for AEPSC Services	Common and ordinary nature of AEPSC services	X	
	Overlap/redundancy of AEPSC services with SWEPCO activities	X	
VI Governance Practices Applied to AEPSC Charges	Control processes that ensure AEPSC charges are appropriate and properly billed	X	X
VII Reasonableness of AEPSC Charges to SWEPCO	Benchmarking AEPSC A&G-related charges		X
VIII Reasonableness of SWEPCO Total A&G Charges	Benchmarking SWEPCO total A&G expenses		X
IX Provision of AEPSC Services at No Higher Cost Than to Other Affiliates	Process for assigning AEPSC charges to affiliates		X
	Reasonableness of AEPSC allocation bases		X
X Provision of AEPSC Services at the Lower of Cost or Market	Cost comparison of AEPSC to outside service providers		X

Necessity of AEPSC services is specifically evaluated in the following ways:

- Compared AEPSC services to those of the comparison group service companies to determine their similarity.
- Compared AEPSC's services to SWEPCO's own activities to identify any duplication or overlap.
- Evaluated the governance structure and processes to determine if they help ensure that AEPSC's services are necessary to SWEPCO.

Reasonableness of AEPSC charges is evaluated in the following ways:

- Analyzed AEPSC's costs trends, identified major cost drivers and assessed their relationship to AEPSC's services.
- Determined if AEPSC's charges to SWEPCO are in line with those of other utility service companies. This is accomplished by comparing AEPSC's administrative and general (A&G) expense-related charges to a similar group of utility service companies. Utility service companies deliver a variety of services. Some support their regulated utility affiliate's operations-related functions (e.g., generation, transmission, distribution). All utility service companies, however, provide A&G services to their affiliates. This is true because there are considerable economies of scale derived from centralizing the management of corporate (A&G) services such as information technology, finance and human resources. Because A&G-related services are delivered by all utility service

### III – Evaluation Approach for AEPSC Charges

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companies, this study uses A&G charges per customer as the metric by which to test the reasonableness of services provided by AEPSC.

- Determined if SWEPCO's total A&G expenses per customer are in line with those of other regulated utilities owned by utility holding companies with service companies providing corporate services to affiliates. Total A&G expenses include charges from an affiliate service company and expenses incurred directly by the operating utility. This measure provides a broader cost dimension for evaluating AEPSC charges to SWEPCO.
- Determined whether AEPSC charges SWEPCO no higher cost for services than it does other AEP affiliates. This involved an assessment of AEP's financial systems, processes and data structure to determine if they are designed and configured to properly charge affiliates with AEPSC's fully distributed costs of services. Also evaluated were factors used to allocate AEPSC costs to determine if they are reasonable and relate to cost causation.
- Determined if AEPSC's services are provided to SWEPCO at the lower of cost or market. This is accomplished by comparing the cost per hour for managerial and professional services provided by AEPSC personnel to hourly billing rates that would be charged by outside providers of equivalent services.
- Determined whether AEP's governance structure and processes help ensure that AEPSC charges to SWEPCO are accurate and reasonable.

#### **Selection of Comparison Groups**

Utility Holding Companies (service company A&G charges per customer)

Every centralized service company in a holding company system must file a Form 60 in accordance with Section 1270 of the Public Utility Holding Company Act of 2005, Section 390 of the Federal Power Act, and 18 C.F.R. §366.23. This report is designed to collect financial information from service companies that are subject to regulation by FERC.

Besides AEPSC, 32 active service companies associated with 25 other utility holding companies filed a Form 60 for 2019. This group was screened to develop a comparison group whose characteristics are similar to those of the Operating Companies served by AEPSC. The following three criteria were used to establish the comparison utility holding companies:

- Proportion of Retail Electric Service – SWEPCO provides only electric service. The majority of service companies are owned by parents of utility companies that provide a combination of retail electric and gas service. The nature of service company services can differ somewhat between electric and gas service functions. In order to have a close alignment to SWEPCO, the service companies of utility companies with 65% or more of total customers consisting of electric customers were considered for comparison group inclusion.
- Number of Customers – Total retail utility customers served by service companies varies significantly from 190,000 for Unitil to 10,000,000 for Exelon. In order to ensure a similar degree of complexity and breadth to that of SWEPCO and the other Operating Companies served by AEPSC, only utility companies with more than 1 million total retail customers were considered for inclusion in the comparison group.
- Utility Type – SWEPCO is an integrated utility with generation, transmission and distribution assets that it owns, operates and maintains. Many utilities operate in states where the market for electric generation is deregulated. In these cases, operating utilities

### III – Evaluation Approach for AEPSC Charges

generally do not own and operate generation assets, as that service is provided to retail customers by affiliate or third-party entities. Only utility holding companies owning some integrated utilities were selected for the comparison group.

The table below shows the 7 utility holding companies besides AEP that met these criteria and were selected for the comparison group of service company A&G expenses per customer.

Utility Holding Co	Retail Customers			Percent Electric	Selection Criteria		
	Electric	Gas	Total		≥ 65% Electric	> 1 M Customers	Types of Utilities Owned
AEP	5,500,000	-	5,500,000	100%	Yes	Yes	Integrated, Distribution
AES	774,742	-	774,742	100%	Yes	No	Integrated, Distribution
Algonquin	264,000	335,000	599,000	44%	No	No	Integrated
Alliant	971,301	417,322	1,388,623	70%	Yes	Yes	Integrated
Ameren	2,400,000	900,000	3,300,000	73%	Yes	Yes	Integrated, Distribution
Avangrid	2,200,000	1,050,000	3,250,000	68%	Yes	Yes	Distribution
Black Hills	220,000	1,060,000	1,280,000	17%	No	Yes	Integrated
Centerpoint	2,372,135	4,252,361	6,624,496	36%	No	Yes	Distribution
Dominion	3,560,000	3,140,000	6,700,000	53%	Yes	Yes	Integrated
Duke	7,500,000	1,600,000	9,100,000	82%	Yes	Yes	Integrated, Distribution
Entergy	2,900,000	200,000	3,100,000	94%	Yes	Yes	Integrated
Eversource	3,110,000	533,000	3,643,000	85%	Yes	Yes	Distribution
Exelon	8,916,000	1,084,000	10,000,000	89%	Yes	Yes	Distribution
FirstEnergy	6,000,000	-	6,000,000	100%	Yes	Yes	Integrated, Distribution
Nat Grid	3,400,000	3,600,000	7,000,000	49%	No	Yes	Distribution
NiSource	470,000	3,419,000	3,889,000	12%	No	Yes	Integrated
PNM	532,330	256,496	788,826	67%	Yes	No	Integrated
PPL	2,400,000	300,000	2,700,000	89%	Yes	Yes	Integrated, Distribution
Southern Co	4,270,000	4,277,000	8,547,000	50%	Yes	Yes	Integrated
TECO	765,000	913,000	1,678,000	46%	No	Yes	Integrated
Unitil	106,129	83,911	190,040	56%	No	No	Distribution
WEC	1,183,000	3,317,000	4,500,000	26%	No	Yes	Integrated
Xcel	3,700,000	2,000,000	5,700,000	65%	Yes	Yes	Integrated
Total	63,514,637	32,738,090	96,252,727				

included in comparison group

Source: Annual reports, 10Ks, other publications, Baryenbruch & Company, LLC, analysis

#### Utility Operating Companies (total A&G expenses per customer)

AEP and the 7 utility holding companies in the comparison group own 27 integrated regulated utilities, including SWEPCO, that filed a FERC Form 1 for 2019. This comprises the benchmarking comparison group for total A&G expenses per customer.

AEP	Entergy
Appalachian Power Company	Entergy Arkansas, Inc.
Indiana Michigan Power Company	Entergy Louisiana, LLC
Kentucky Power Company	Entergy Mississippi, Inc.
Public Service Company of Oklahoma	Entergy New Orleans, Inc.
Southwestern Electric Power Company	Entergy Texas, Inc.
Wheeling Power Company	FirstEnergy
Alliant	Monongahela Power Company
Interstate Power and Light Company	Potomac Edison Company
Wisconsin Power and Light Company	PPL
Ameren	Kentucky Utilities Company
Union Electric Company	Louisville Gas and Electric Company
Duke	Xcel
Duke Energy Carolinas, LLC	Northern States Power Company (Minnesota)
Duke Energy Florida, Inc.	Northern States Power Company (Wisconsin)
Duke Energy Indiana, Inc.	Public Service Company of Colorado
Duke Energy Kentucky, Inc.	Southwestern Public Service Company
Duke Energy Progress, Inc.	

Source: 2019 FERC Form 1

## IV – Analysis of AEPSC Cost Trends

### Staffing and Cost Trends

Shown in the table below are the overall trends in AEPSC's staffing and O&M expenses from 2017 to Test Year 2020.

Total AEPSC	Test Year				2017-2020 TY Change	
	2017	2018	2019	2020	Amount	Percent
Staffing (number of positions)	6,097	6,339	6,423	6,441	344	6%
O&M Spending (\$ millions)	\$ 686.7	\$ 757.6	\$ 782.5	\$ 797.9	\$ 111.2	16%

Source: AEPSC information

#### AEPSC Staffing Changes (2017 to Test Year 2020)

Between 2017 and Test Year 2020, AEPSC's total staffing increased by 344 positions or 6%. Exhibit 2 (page 13) shows staffing changes by AEPSC group and department.

The major factors that contributed to the net increase in AEPSC's staffing level are the following:

- Expansion of the Transmission Business (256 increase) – As transmission work increased throughout AEP's service territory, a decision was made to convert some transmission contractors to full-time employees.
- Increase IT Work Scope (78 increase) – The majority of IT's staffing increase is driven by the need for telecommunication support for transmission and distribution capital growth.
- Establishment of New Function (36 increase) - The Charge department leverages transformative technologies to deliver timely, cost-reducing innovative capabilities for AEP's customers and employees. Charge engages the business at large, ranks opportunities against an established prioritization framework and rapidly creates technologies for immediate consideration and implementation.
- Growth in Customer Solutions and Distribution (27 increase) – Positions were added to meet increased customer demand.
- Addition of Cybersecurity Resources and Capabilities (20 increase) – The IT security function expanded to meet evolving threats to AEP's assets.
- Change in Generation Capacity (137 decrease) – AEP's generation capacity declined somewhat between 2017 and Test Year 2020. In 2017 total capacity was around 27,800 megawatts (MW) (23,000 MW of regulated-owned and 4,800 MW of purchase power agreement (PPA)) and in 2019 was around 26,900 MW (22,000 MW of regulated-owned and 4,900 PPA). AEP is also diversifying its generation mix by expanding renewable resources and closing older fossil plants. These factors have resulted in the need for fewer positions to support the fossil fleet.
- Outsourcing of Accounting Functions (100 decrease) – An outsourcing initiative was fully implemented in 2019 when AEPSC transitioned various recurring accounting tasks to a third-party provider.

## IV – Analysis of AEPSC Cost Trends

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### AEPSC O&M Spending Changes (2017 to Test Year 2020)

Between 2017 and Test Year 2020, AEPSC's total O&M spending increased by \$111.2 million or 16%. Exhibit 3 (page 14) shows the O&M spending changes by cost category and AEPSC group. The major drivers of AEPSC's O&M increase include the following:

- Expansion of the Transmission Business (\$29.5 million increase) – AEPSC O&M spending increased to support AEP's expanding transmission business.
- Expanded Use of Contractors (\$19.8 million increase) – In an effort to maintain consistent permanent employee staffing levels in a few AEPSC groups, contractors were used more often to handle peak workloads. Most of this increase can be attributed to a few AEPSC groups, including Chief Executive Officer (primarily IT), Distribution, Customer Services and Regulatory Services, and Chief Financial Officer.
- Annual Merit Increases (\$18.5 million increase) – During the period 2017 to Test Year 2020, annual merit increases averaged 3.0% to 3.5% for AEPSC's staff.
- Changes in Market Value of Umbrella Trust (\$18.3 increase) – In 2017, the Chief Financial Officer group had a credit balance of \$23.2 million in the Other Costs category compared to a credit balance of approximately \$4.9 million during the Test Year 2020. This increase is primarily due to changes in the market value of the AEPSC Umbrella Trust for Executives plan and the tax impact of changes in AEPSC's taxable income.
- Outsourcing of Accounting Functions (\$3.8 million decrease in internal labor, \$1.3 million increase in outside services) – An outsourcing initiative was fully implemented in 2019 when AEPSC transitioned various recurring accounting tasks to a third-party provider.
- Change in Incentive Compensation (\$5.9 million decrease) – Between 2017 and Test Year 2020, overall incentive payouts decreased somewhat on relatively similar performance levels. (Note that SWEPCO has included a pro forma adjustment to its proposed Test Year 2020 revenue requirement to eliminate incentive compensation associated with the attainment of financial measures.
- Other Changes, Net (\$33.0 million increase) – The primary factor accounting for this increase are increased AEPSC internal support and overhead expenses associated with information technology, transmission administration and customer operations.

Exhibit 2

**Southwestern Electric Power Company  
AEPSC Staffing (2017 to Test Year 2020)**

Group/Department	Dec 31 2017	Dec 31 2018	Dec 31 2019	Mar 31 2020	2017 to 2020 Change		Primary Reason for Change
					Number	Percent	
<b>Chief Executive Officer</b>							
Chief Executive Officer Admin	3	3	3	3	-	0%	J - Other Changes, Net
Internal Audit	40	42	42	42	2	5%	J - Other Changes, Net
Legal	224	243	246	244	20	9%	F - Addition of Cybersecurity Resources
<b>Total Chief Executive Officer</b>	<b>267</b>	<b>288</b>	<b>291</b>	<b>289</b>	<b>22</b>	<b>8%</b>	
<b>Chief Financial Officer</b>							
Chief Financial Officer Admin	2	2	2	2	-	0%	J - Other Changes, Net
Corporate Accounting	231	182	130	131	(100)	-43%	H - Outsourcing of Certain Functions
Corporate Planning & Budgeting	60	58	61	61	1	2%	J - Other Changes, Net
Strategy & Innovation	30	34	30	29	(1)	-3%	J - Other Changes, Net
Supply Chain & Fleet	250	244	261	264	14	6%	C - SC & Fleet Increase (Transmission Growth)
Treasury, Risk & Investor Relations	83	83	83	81	(2)	-2%	J - Other Changes, Net
<b>Total Chief Administrative Officer</b>	<b>656</b>	<b>603</b>	<b>567</b>	<b>568</b>	<b>(88)</b>	<b>-13%</b>	
<b>Chief Administrative Officer</b>							
Chief Administrative Officer Admin	2	3	4	4	2	100%	J - Other Changes, Net
Human Resources	135	135	140	139	4	3%	J - Other Changes, Net
Information Technology	518	552	599	596	78	15%	B - IT Work Scope Increase
Labor Relations	5	5	5	5	-	0%	J - Other Changes, Net
Real Estate & Workplace Services	88	109	112	107	19	22%	J - Other Changes, Net
Telecommunications	199	221	246	250	51	26%	D - Telecom Work Scope Increase (T&D growth)
Charge	-	11	30	36	36		I - New Function
<b>Total Chief Administrative Officer</b>	<b>947</b>	<b>1,036</b>	<b>1,136</b>	<b>1,137</b>	<b>190</b>		
<b>Generation</b>							
Fossil & Hydro	287	290	273	267	(20)	-7%	E - Decreased Generation Fleet
Generation Project & Construction Services	114	122	122	121	7	6%	J - Other Changes, Net
Generation Engineering Services	275	258	200	199	(76)	-28%	E - Decreased Generation Fleet
Environmental Services	114	115	104	97	(17)	-15%	J - Other Changes, Net
Generation Business Services	29	30	25	26	(3)	-10%	J - Other Changes, Net
Generation Administration	9	6	6	6	(3)	-33%	J - Other Changes, Net
Regulated Commercial Operations	139	134	115	114	(25)	-18%	J - Other Changes, Net
<b>Total Generation</b>	<b>967</b>	<b>955</b>	<b>845</b>	<b>830</b>	<b>(137)</b>	<b>-14%</b>	
<b>Transmission</b>							
Corporate Safety & Health	32	34	38	38	6	19%	A - Transmission Business Expansion
Grd Development	1,239	1,307	1,353	1,375	136	11%	A - Transmission Business Expansion
Transmission Administration	2	2	2	2	-	0%	J - Other Changes, Net
Transmission Field Services	752	807	849	852	100	13%	A - Transmission Business Expansion
Transmission Reliability	11	10	11	10	(1)	-9%	J - Other Changes, Net
Transmission Strategy	116	116	130	130	14	12%	A - Transmission Business Expansion
<b>Total Transmission</b>	<b>2,152</b>	<b>2,276</b>	<b>2,383</b>	<b>2,407</b>	<b>255</b>	<b>12%</b>	
<b>External Affairs</b>							
Corporate Communications	37	42	40	41	4	11%	J - Other Changes, Net
Corporate Sustainability	2	2	3	3	1	50%	J - Other Changes, Net
Customer & Distribution Services	752	799	781	779	27	4%	G - Customer Solutions, Distribution Services
External Affairs Administration	1	1	1	1	-	0%	J - Other Changes, Net
Federal Affairs	6	5	7	7	1	17%	J - Other Changes, Net
Regulatory Issues Management	25	24	30	33	8	32%	J - Other Changes, Net
Regulatory Services	65	71	72	74	9	14%	J - Other Changes, Net
<b>Total External Affairs</b>	<b>888</b>	<b>944</b>	<b>934</b>	<b>938</b>	<b>50</b>	<b>6%</b>	
<b>Energy Supply</b>							
Energy Supply	3	4	4	4	1	33%	J - Other Changes, Net
<b>Total Energy Supply</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>33%</b>	
<b>Utility Operations</b>							
Utility Operations	217	233	263	268	51	24%	J - Other Changes, Net
<b>Total Utility Operations</b>	<b>217</b>	<b>233</b>	<b>263</b>	<b>268</b>	<b>51</b>	<b>24%</b>	
<b>Total</b>	<b>6,097</b>	<b>6,339</b>	<b>6,423</b>	<b>6,441</b>	<b>344</b>	<b>6%</b>	

**Summary of Staffing Changes**

A - Transmission Business Expansion	256
B - IT Work Scope Increase	78
C - SC & Fleet Increase (transmission growth)	14
D - Telecom Work Scope Increase (T&D growth)	51
E - Decreased Generation Fleet	(96)
F - Addition of Cybersecurity Resources	20
G - Customer Solutions, Distribution Services	27
H - Outsourcing of Certain Functions	(100)
I - New Function	36
J - Other Changes, Net	58
<b>2015 to Test Year 2018 Total AEPSC Staffing Change</b>	<b>344</b>

Source Company information, Baryenbruch & Company, LLC, analysis

Exhibit 3

**Southwestern Electric Power Company  
AEPSC O&M Expenses (2017 to Test Year 2020)**

Actual AEPSC O&M Expenses by Cost Category

Cost Category	2017	2018	2019	Test Year 2020	2017 - Test Year 2020 Change		
					Amount	Percent	Major Drivers
Internal Labor	\$ 278,708,742	\$ 290,618,914	\$ 303,012,066	\$ 306,561,199	\$ 27,852,457	10%	A,C,E,G
Fringes	\$ 85,725,285	\$ 66,138,381	\$ 79,133,438	\$ 80,170,882	\$ (5,554,403)	(6%)	A,E,G
Incentives	\$ 85,137,283	\$ 91,005,876	\$ 95,487,143	\$ 79,226,276	\$ (5,911,007)	(7%)	B
Outside Services	\$ 95,547,730	\$ 101,109,541	\$ 113,157,811	\$ 117,116,711	\$ 21,568,981	23%	A,D,E,G
Travel & Entertainment	\$ 13,217,422	\$ 14,616,547	\$ 15,200,964	\$ 14,463,250	\$ 1,245,828	9%	A,G
Material & Supplies	\$ 11,463,152	\$ 16,134,023	\$ 12,907,352	\$ 13,784,817	\$ 2,321,665	20%	G
Fleet Services	\$ 18,098,847	\$ 20,359,898	\$ 21,172,896	\$ 21,038,577	\$ 2,939,730	16%	A,G
Severance	\$ 3,383,440	\$ 4,671,923	\$ 11,686,485	\$ 5,751,423	\$ 2,367,984	70%	G
Other Clearings/Billings	\$ 1,700,959	\$ 759,315	\$ 2,895,641	\$ 1,918,531	\$ 217,572	13%	G
Other Cost Category	\$ (9,977,788)	\$ 31,691,567	\$ (18,756,238)	\$ 21,310,155	\$ 31,287,942	(314%)	A,F,G
Shrd Svces/Ovrhead Billings	\$ 103,739,684	\$ 120,488,099	\$ 146,572,867	\$ 136,588,283	\$ 32,848,599	32%	G
<b>Total</b>	<b>\$ 686,744,756</b>	<b>\$ 757,594,085</b>	<b>\$ 782,470,425</b>	<b>\$ 797,930,105</b>	<b>\$ 111,185,349</b>	<b>16%</b>	

Major Reasons for O&M Spending Changes Changes (2017 to Test Year 2020)

- A - Transmission Business Expansion
- B - Change in Incentive Compensation
- C - Annual Merit Increases
- D - Expanded Use of Outside Contractors
- E - Outsourcing of Accounting Functions
- F - Changes in Market Value of Umbrella Trust
- G - Other Changes, Net

Source: AEPSC information; Baryenbruch & Company, LLC, analysis

Actual AEPSC O&M Expenses by Group

Group	2017	2018	2019	Test Year 2020	2017 to Test Year 2020 Change		
					Amount	Percent	Major Drivers
Chief Executive Officer	\$ 162,997,978	\$ 158,800,061	\$ 185,153,881	\$ 189,389,332	\$ 26,391,355	16%	B,C,D,G
Chief Administrative Officer	\$ 32,057,186	\$ 36,779,645	\$ 40,549,988	\$ 41,735,589	\$ 9,678,402	30%	B,C,D,G
Chief Financial Officer	\$ 67,028,698	\$ 97,002,835	\$ 27,922,744	\$ 51,485,658	\$ (15,543,040)	(23%)	B,C,E,F,G
Energy Supply	\$ (3,553,599)	\$ (3,775,339)	\$ (3,248,906)	\$ (2,032,573)	\$ 1,521,026	(43%)	B,C,D,G
External Affairs	\$ 105,912,206	\$ 119,228,236	\$ 160,497,658	\$ 156,796,776	\$ 50,884,570	48%	B,C,D,G
Generation	\$ 125,558,781	\$ 132,216,278	\$ 145,261,794	\$ 133,043,406	\$ 7,484,625	6%	B,C,G
Transmission	\$ 146,034,216	\$ 167,602,285	\$ 186,248,125	\$ 188,046,772	\$ 42,012,556	29%	A,B,C
Utilities	\$ 50,709,290	\$ 49,740,084	\$ 40,085,141	\$ 39,465,145	\$ (11,244,145)	(22%)	B,C,G
<b>Total</b>	<b>\$ 686,744,756</b>	<b>\$ 757,594,085</b>	<b>\$ 782,470,425</b>	<b>\$ 797,930,105</b>	<b>\$ 111,185,349</b>	<b>16%</b>	

Major Reasons for O&M Spending Changes Changes (2017 to Test Year 2020)

- A - Transmission Business Expansion
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- F - Changes in Market Value of Umbrella Trust
- G - Other Changes, Net

Source: AEPSC information; Baryenbruch & Company, LLC, analysis



## V – Need for AEPSC Services

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### Services Provided by AEPSC

The current Services Agreement between AEPSC and SWEPCO is dated June 15, 2000, and provides that AEPSC render its services at cost. The PUC most recently approved AEPSC charges to SWEPCO in a 2016 rate case order (Docket No. 46449).

Exhibit 4 (page 16) presents a summary of services provided by AEPSC to affiliates.

### Necessity of Services

#### Consistency with Other Utility Service Companies

SWEPCO's need for AEPSC services was first evaluated by determining if those services are typically provided by other utility service companies. This determination was made with the use of information from the FERC Form 60. Exhibit 5 (page 17) presents the results, which shows AEPSC's services are similar to those provided by the utility holding company comparison group's service companies. AEPSC is among several service companies that provide a broader set of utility services. Those that provide fewer services are generally part of a holding company where utility operational activities (e.g., generation, transmission and distribution) are the responsibility of regulated utility affiliates.

#### Redundancy

The need for AEPSC's services was also evaluated by determining if they would be required if SWEPCO were a stand-alone electric utility. This evaluation began by determining in detail what the Service Company does for SWEPCO. Based on discussions with AEPSC personnel, the matrix in Exhibit 6 (pages 18-19) was created showing which entity—SWEPCO or an AEPSC location—is responsible for each of the functions SWEPCO requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by AEPSC and (2) if AEPSC services are typical of those needed by a stand-alone electric utility.

Upon review of Exhibit 6, the following conclusions can be drawn:

- The services that AEPSC provides are necessary and would be required even if SWEPCO were a stand-alone electric utility.
- There is no redundancy or overlap in the services provided by the AEPSC to SWEPCO. For all of the services listed in Exhibit 6, there was only one entity that was primarily responsible for the services provided by AEPSC to SWEPCO.

Exhibit 4

**Southwestern Electric Power Company  
Description of AEPSC Services**

<b>Customer Service</b> – Resolve customer problems and manage customer relationships. Primarily provide support in the areas of customer operations, billing support, website development, and customer solution centers.
<b>Distribution</b> – Provide mapping services, contract administration, data analysis and benchmarking, system budgeting, line training, project management, design and development of construction projects, drafting and engineering services, and planning services.
<b>Transmission</b> – Provide transmission planning, project management, drafting and engineering services, development of standards related to electric transmission systems, budgeting and cost analysis, and field operations, maintenance, and emergency restoration of the transmission system.
<b>Federal Affairs</b> – Responsible for federal legislative monitoring, analysis, advocacy and regulatory development.
<b>Regulatory Services</b> – Responsible for case management and coordination, overall regulatory policy, technical support, and expertise on regulatory issues.
<b>Generation</b> – Provides executive leadership, management direction, outage planning, and engineering and environmental support services.
<b>Regulated Commercial Operations</b> – Coordinate the dispatch of AEP's generation fleet and engage in bulk power market activity in order to serve native load requirements and to lower customer rates through off-system sales.
<b>Environmental Services</b> – Manage the Company's environmental programs, which include permitting and compliance, laboratory services, and strategy and planning.
<b>Corporate Safety and Health</b> – Manage the Company's safety programs.
<b>Fuel Procurement</b> – Responsible for fuel procurement, contract negotiation and administration, inventory management, and planning and analysis.
<b>Information Technology</b> - Manage and support application services, the architecture and infrastructure of information technologies, networks, personal computer systems and other hardware assets, and software applications
<b>Telecommunications</b> - Provide telecommunication products and services and all infrastructure service for the corporate network and the SCADA network
<b>Supply Chain and Fleet Operations</b> – Responsible for the areas of fleet services and the procurement of materials and services and associated contracting.
<b>Real Estate and Workplace Services</b> – Responsible for areas of facilities management, office services, physical security and land management.
<b>Human Resources</b> – Responsible for interpreting, defining, writing, and administering the Company's human resource policies and providing human resource services to all AEP employees. Responsible for compliance with all related bodies of regulation, including EEO, ERISA, and OSHA.
<b>Chief Financial Officer</b> – Maintain all accounting records, provide internal and external reporting, develop the company's accounting and financial operations policies, plan tax compliance programs, and prepare tax returns. Provide budgeting and forecasting services, financial analyses, and AEPSC billing oversight. Responsible for cash management, corporate finance, the employees' benefit trust, and investor relations. Responsible for coordinating risk assessment, credit risk management and insurance coverage.
<b>Chief Executive Officer and Internal Audit</b> – Executive management oversight provided by the Chief Executive Officer. Provide internal audit services for all business units to ensure that controls are in place and operating effectively.
<b>Legal Services</b> – Provide legal services related to litigation, regulatory, real estate, finance, tax, and other business matters. Administer the ethics and compliance program
<b>Physical &amp; Cyber Security</b> - Provide services related to enhancing the AEP System's capabilities for identifying risks and threats.
<b>Corporate Communications</b> – Provide local corporate communications by distributing information to employees, the media, customers, civic leaders, and the public at large
<b>Energy Supply</b> - responsible for coordinating the dispatch of AEP's competitive generation fleet and engages in marketing, risk management and retail activities in ERCOT, PJM, SPP and MISO.

Source: Brian Frantz testimony (Exhibit BJB-4)

Exhibit 5

**Southwestern Electric Power Company  
Services Provided by Utility Service Company Comparison Group**

<b>Service Categories</b>	<b>AEP</b>	<b>Alliant</b>	<b>Ameren</b>	<b>Dominion</b>	<b>Duke</b>	<b>Entergy</b>	<b>FirstEnergy</b>	<b>PPL</b>	<b>Southern Co</b>	<b>WEC</b>	<b>Xcel</b>
<b>Executive/Management</b>	X	X	X	X	X	X	X	X	X	X	X
<b>Utility System Operations</b>											
Generation	X	X		X	X	X	X		X	X	X
Transmission	X	X	X		X	X	X		X	X	X
Distribution	X	X		X	X	X	X		X	X	X
Customer Service	X	X			X	X	X			X	X
<b>Corporate Strategy, Planning and Development</b>	X	X	X	X	X	X	X	X	X		
<b>Legal</b>	X	X	X	X	X	X	X	X	X	X	X
<b>Corporate/External Affairs and Communications</b>	X	X	X	X	X	X	X	X	X	X	X
<b>Human Resources</b>	X	X	X	X	X	X	X	X	X	X	X
<b>Financial Services</b>											
Finance	X	X	X	X	X	X	X	X	X	X	X
Accounting	X	X	X	X	X	X	X	X	X	X	X
Taxes	X	X	X	X	X	X	X	X	X	X	X
Investor Relations	X	X	X	X	X	X	X	X	X	X	X
<b>Corporate Risk Management</b>	X			X	X		X	X		X	
<b>Audit Services</b>	X	X	X	X	X	X	X	X		X	X
<b>Rates and Regulatory Affairs</b>	X	X		X	X	X	X			X	X
<b>Information Technology</b>	X	X	X	X	X	X	X	X	X	X	X
<b>Environment and Safety</b>	X	X	X	X	X	X	X		X	X	X
<b>Supply Chain</b>	X	X		X	X	X	X	X	X	X	X
<b>Other (A)</b>	X	X	X	X	X		X	X		X	X
<b>Total Services</b>	<b>20</b>	<b>19</b>	<b>14</b>	<b>18</b>	<b>20</b>	<b>18</b>	<b>20</b>	<b>14</b>	<b>15</b>	<b>19</b>	<b>18</b>

Note A. includes services such as transportation/fleet, aviation, real estate, facilities and rights of way.

Source: FERC Form 60 (2019); Baryenbruch & Company, LLC, analysis

## Southwestern Electric Power Company Responsibility Matrix

Primarily Responsible / Provides Support	P / S	Performed by				
		SWEPSCO	AEPSC			
			Corporate Columbus/ Canton	Region Tulsa	State Dallas / Austin	Local Shreveport
Electric Company Function						
<b>Electric System Operations</b>						
Generation						
Technical Support Services	P					S
Stations Operations	P					S
Generation Engineering	P					S
Reliability Programs	P					S
Fuel Procurement	S	P				
Transmission (A)						
Transmission Substation Services	S					P
Transmission Planning	S					P
Electric Asset Management	S					P
Electric System Planning	S					P
Electric System Protection	S					P
Electric System Operations	S					P
System Reliability	S					P
Critical Infrastructure Protection	S					P
Distribution						
Distribution Planning	P					S
Distribution Dispatch						
Dispatch Operations	P	S				
Field Operations	P	S				
Operations Services	P	S				
Distribution Field Engineering						
New Business Support	P	S				
Joint Pole Services	P	S				
Engineering Services	P	S				
Distribution Construction & Maintenance						
Distribution Maintenance	P	S				
Distribution Construction - Lines	P	S				
Distribution Construction - Substations	P	S				
Distribution Substation Operations						
Operations Services	P	S				
T&D Service Center Support	P	S				
Metering Maintenance Services	P	S				
Engineering						
T&D Project Technical Services	S					P
T&D Project Management (A)	P					P
T&D Engineering Administration	S					P
T&D Project Technology Support	S					P
Electric System Engineering Services	S					P

Note A AEPSC is responsible for implementing transmission projects that benefit more than one operating company SWEPSCO is responsible for transmission projects from which only it benefits

Source: Company information, Baryenbruch & Company, LLC, analysis

Electric Company Function	SWEPCO	Performed by			
		Corporate Columbus/ Canton	AEPSC		
			Region Tulsa	State Dallas / Austin	Local Shreveport
<b>Electric System Operations (cont.)</b>					
Forestry - Tree Trimming	P				
Major Projects					
Engineering Services	S				P
Project Management Services	P				
Construction Management	P	S			
Contractor Services	P				
Customer Operations					
Work Management System Support	P				
Engineering Support	P				
Planning And Scheduling	P				
New Business Support	P				S
Meter Reading	P				
Dispatch Operations Support	P				
Customer System Support	S	P			
Billing	S	P			
Revenue Recovery	P				S
Payment Processing		P			
Customer Programs	P	S			
Postage Management		P			
Damage Recovery	P				
Walk in Centers	P				
Contact Center Operations & Support					P
Call Center Operations					P
Demand Side Management	P	S			
Major Accounts Support	P				
Delivery Services					P
Warehouse Services					
Warehouse Operations					P
Material Services					P
Fleet Services	S				P
Supply Chain					
Procurement Operations	S	S			P
Compliance	S	S			P
Contractor Time Reporting	S				P
Security Services	S				P

## Southwestern Electric Power Company Responsibility Matrix

Electric Company Function	SWEPCO	Performed by			
		AEPSC			
		Corporate	Region	State	Local
		Columbus/ Canton	Tulsa	Dallas / Austin	Shreveport
<b>Planning</b>					
Business Planning	P	S			
Strategic Planning	P	S			
<b>Finance</b>					
Financial Planning	P				
Business Support Services - Budgeting	P	S			
Accounting	S		P		
SOX Compliance	P	S			
Taxes		P			
Credit Risk Management		P			
Enterprise Risk Management		P			
Treasury		P			
Accounts Payable		P			
Asset Accounting		P			
<b>Insurance</b>		P			
<b>Audit Services</b>		P			
<b>Rates and Regulatory</b>					
Rates and Regulatory Finance	P	S			
Regulatory Legal (A)	S	S		P	
Regulatory Policy					
Federal	S	P			
State	P	S			
Rate Case Planning and Execution	P	S	S	S	
<b>Executive/Management</b>	S	P			
<b>Legal</b>					
Legal Services (B)		P			
Compliance	S	P			
Records Management		P			
Corporate Secretary Services		P			
Corporate Security		P			
Business Continuity	S	P			
<b>Human Resources</b>					
HR Programs Administration		S			P
HR Services Delivery					P
Payroll Services		P			
Organizational Development		P			

Electric Company Function	SWEPCO	Performed by			
		AEPSC			
		Corporate	Region	State	Local
		Columbus/ Canton	Tulsa	Dallas / Austin	Shreveport
<b>Information Technology Services</b>					
IT Security		P			
IT Service Delivery	S	P			
IT Operations and Maintenance		P			
Enterprise Transformation		P			
Service Performance		P			
<b>Facilities</b>					
Facilities Management	S				P
Real Estate Management	S				P
<b>Other</b>					
Aviation		P			
Corporate Compliance		P			
Corporate Secretary		P			
Corporate Affairs					
Government and External Affairs - Local	P	S			
Government and External Affairs - Corporate		P			
Investor Relations		P			
<b>Communications</b>					
Communications					
Local Communications	P	S			
Corporate-Wide Communications		P			
Economic Development	S	P			
Community Development	P				
<b>Energy Supply &amp; Trading</b>					
Portfolio Optimization		P			
Energy Trading		P			
Market Research		P			
Resource Planning	P	S			
<b>Environmental Safety &amp; Training</b>					
Safety Services	P	S			
Compliance Services	P	S			
Training	P	S			
Remediation	P	S			
Permitting	P	S			

Note B. In general, it is AEP's policy to use internal counsel, supplemented by outside counsel. However, given SWEPCO's three-state territory, outside counsel is used a majority of the time.

Source. Company information; Baryenbruch & Company, LLC, analysis

## V – Need for AEPSC Services

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### Benefits of AEPSC Services

Exhibit 7 (pages 21-23) presents an analysis of Test Year 2020 charges to SWEPCO by AEPSC department. In the right-hand columns of this exhibit is a designation as to the following benefits of services each department provides to SWEPCO:

- Governance – The AEPSC department provides oversight and management control over functional or operating areas and processes. Among other things, governance activities involve planning and reporting of actual performance.
- Compliance – The AEPSC department helps ensure compliance with regulatory, legal, financial and other obligations of individual operating companies and the combined company.
- Economies – The AEPSC department facilitates cost savings from purchasing and operating economies of scale. AEPSC is able to employ greater bargaining power to realize better prices for common goods and services and pass those savings on to AEP operating companies. It can also more efficiently utilize staff through workload balancing and specialization which allows operating companies to avoid the need to staff for less than a full-time workload.
- Continuity of Service – The AEPSC department helps assure on-going provision of service through the centralization of staff performing similar activities. Larger concentrations of these resources mean there is coverage of work during potential disruptions such as absences and departures.
- Standards – The AEPSC department plays a role in ensuring that standard policies, procedures and practices are established and followed across the enterprise.
- Other – The AEPSC department facilitates service company management, operations, business and accounting processes.

As shown in Exhibit 7, substantially all Test Year 2020 O&M-related charges by AEPSC departments can be associated with one or more of the benefit categories above. A few AEPSC departments associated with other operating company affiliates listed in Exhibit 7 are noted to provide services that cannot readily be identified as pertinent to SWEPCO. Test Year 2020 O&M-related charges from these departments to SWEPCO are a net charge of around \$150,000 or 0.2% of total AEPSC charges. It should be noted that charges from these departments have been removed from SWEPCO's Test Year 2020 revenue requirements. Substantially all of AEPSC's charges are plainly associated with AEPSC departments whose services to SWEPCO are beneficial.

Exhibit 7  
Page 1 of 3

## Southwestern Electric Power Company Necessity of AEPSC Services Analysis

AEPSC Department	Adjusted Test Year 2020 O&M Charges	Services Pertinent to SWEPCO?	Reason the Service is Necessary to SWEPCO					
			Governance	Compliance	Economies	Continuity of Service	Enterprise Standards	Other (A)
<b>10038R Chief Financial Officer</b>								
<b>10024R Corporate Planning &amp; Budgeting</b>								
10024 Corporate Planning & Budgeting	\$ 134,020	Yes	X	X	X	X		
10771R Corp Fin & Econ Forecasting	\$ 630,368	Yes	X	X	X	X		
12314 Resource Plng & Oper Anlys	\$ 780,505	Yes	X	X	X	X		
12818 Planning, Analysis & Reporting	\$ 410,532	Yes	X	X	X		X	
12918 Fundamental Analysis	\$ 15,831	Yes	X	X	X		X	
<b>11405R Corporate Accounting</b>								
10265R Accounting Services	\$ 299,714	Yes	X	X	X		X	
10284R Reg, Trans & AEPSC Acctg	\$ 765,939	Yes	X	X	X		X	
10393 Tax Admin Staff	\$ 943,545	Yes	X	X	X		X	
11325R Comm, Derivative&Energy Acctg	\$ 40,199	Yes	X	X	X		X	
11390 Corporate Financial Reporting	\$ 326,407	Yes	X	X	X		X	
11405 Chief Accounting Officer	\$ 1,290,929	Yes	X	X	X		X	
13757R Finance Business Services	\$ 86,809	Yes	X	X	X			
13758 Regulatory Accounting Services	\$ 31,691	Yes	X	X	X		X	
<b>11433R Treasury Risk and Investor Rel</b>								
10279R Treasury Operations	\$ 1,286,936	Yes	X	X	X	X		
10525 Investor Relations	\$ 101,016	Yes	X	X	X		X	
13690R Risk Operations	\$ 1,086,902	Yes	X	X	X		X	
11433 Treasury and Risk	\$ 5	Yes	X	X	X			
<b>12034R SC Procurement &amp; Fleet Operation</b>								
11353R Generation Procurement	\$ (137)	Yes	X	X	X	X	X	
12034 SC & Fleet Operations	\$ 1,785,699	Yes	X	X	X		X	
12561R Fleet Operations	\$ 867	Yes	X	X	X		X	
12562R SC Center of Excellence	\$ (975)	Yes	X	X	X		X	
12756R SC Procurement Trans Ops	\$ (1,789)	Yes	X	X	X		X	
13353 Corporate Procurement	\$ (664)	Yes	X	X	X		X	
13706R SC Procurement Distr Ops	\$ (1,337)	Yes	X	X	X		X	
<b>12304R CFO Admin</b>								
10038 Chief Financial Officer Admin	\$ 295,342	Yes	X	X	X		X	
<b>12920R Strategy &amp; Transformation Oper</b>								
12920 Strategy & Transformation Oper	\$ 191,135	Yes	X	X	X		X	
13253 Operations & Perform Transform	\$ 439,473	Yes	X	X	X	X	X	
<b>AEPSC Internal Support Costs</b>								
AEPSC Internal Support Costs	\$ 1,471,974	Yes	X	X	X			X
<b>10370R Chief Administrative Officer</b>								
<b>10099R Corporate Human Resources</b>								
10099 Corporate Human Res Admin	\$ 712,213	Yes	X	X	X		X	
10148R Total Rewards	\$ 550,022	Yes	X	X	X		X	
10707R HR Operational Svcs	\$ 6	Yes	X	X	X		X	
11061R Corp HR Information Systems	\$ 171,636	Yes	X	X	X		X	
11341R Workforce Diversity	\$ 110,041	Yes	X	X	X		X	
11445R Talent Management	\$ 468,251	Yes	X	X	X		X	
12210R HR Corporate & Field	\$ 677,376	Yes	X	X	X		X	
12689 HR Business Solutions & Strategy	\$ 2,386	Yes	X	X	X		X	
13664 Future of Work	\$ 28,553	Yes	X	X	X		X	
<b>10370 Chief Adminstratv Offcr Admin</b>								
10370 Chief Adminstratv Offcr Admin	\$ 391,261	Yes	X	X	X	X	X	
<b>10683R Real Estate &amp; Workplace Svcs</b>								
10683 Real Estate & Workplace Svcs	\$ 3,982,037	Yes	X	X	X		X	
10863R Real Estate Asset Management	\$ 123,664	Yes	X	X	X		X	
10940R Workplace Services IN/MI	\$ 198,441	Yes	X	X	X		X	
11213R Workplace Svcs WV/VA/KY	\$ 121,282	Yes	X	X	X		X	
11295R Workplace Svcs OK/LA/AR	\$ 253,451	Yes	X	X	X		X	
11368R Workplace Services WP Programs	\$ 122,817	Yes	X	X	X		X	
11470R Workplace Services OH	\$ 97,726	Yes	X	X	X		X	
12818R Workplace Services HQ	\$ 109,308	Yes	X	X	X		X	
12741 Workplace Services - TX	\$ 33	Yes	X	X	X		X	
<b>10727R Corp Labor Relations</b>								
10727 Corp Labor Relations	\$ 83,821	Yes	X	X	X	X	X	
<b>10559R Chief Executive Officer</b>								
<b>10394R Audit Services</b>								
10149 Contract Audits	\$ 54,405	Yes	X	X	X	X	X	
10394 Audit Services Admin Staff	\$ 113,664	Yes	X	X	X	X	X	
10674 Operational/Financial/IT Audits	\$ 722,440	Yes	X	X	X	X	X	
11013 Information Technology Audits	\$ 338	Yes	X	X	X	X	X	
11382 Envrnmntl Safety&HealthAudting	\$ 310,485	Yes	X	X	X	X	X	
<b>10764R Legal GC/Administration</b>								
10330R Ethics and Compliance	\$ 153,058	Yes	X	X	X	X	X	
12673R Chief Security Officer	\$ 1,378,927	Yes	X	X	X	X	X	
13260 Reg Svcs - External Affairs OH	\$ 2,284	Yes	X	X	X	X	X	
13344R Legal Only	\$ 2,340,564	Yes	X	X	X	X	X	
<b>12985R Executive Admin</b>								
10559 Chief Executive Officer Admin	\$ 587,783	Yes	X	X	X	X	X	
12494 Corp Contributions&Memberships	\$ 227,596	Yes	X	X	X	X	X	
<b>13770R Chief Info &amp; Tech Officer</b>								
11057R Information Technology	\$ 16,249,188	Yes	X	X	X	X	X	
12497R Telecommunications	\$ 597,331	Yes	X	X	X	X	X	
13386R Enterprise Innovation	\$ 366,207	Yes	X	X	X	X	X	
13854R Charge	\$ 137,710	Yes	X	X	X	X	X	

Exhibit 7  
Page 2 of 3

## Southwestern Electric Power Company Necessity of AEPSC Services Analysis

AEPSC Department	Adjusted Test Year 2020 O&M Charges	Services Pertinent to SWEPCO?	Reason the Service is Necessary to SWEPCO					
			Governance	Compliance	Economies	Continuity of Service	Enterprise Standards	Other (A)
<b>11991R Generation</b>								
<b>10004R Generation-Fossil &amp; Hydro</b>								
10004 Fossil & Hydro Generation	\$ 350,271	Yes		X	X	X	X	
10096R Generating Assets AP/KEP	\$ 2,569	No						
11528R Generating Assets SWEPCO	\$ 8,245	Yes		X	X	X	X	
12354R Operational Support	\$ 799,079	Yes		X	X	X	X	
12831R GET FSV Field Services & Hydro	\$ 3,543,592	Yes		X	X	X	X	
13256R Gen Performance Improvement	\$ 403,510	Yes	X	X	X	X	X	
<b>10491R GET Prj &amp; Construction</b>								
10130R Major Projects East	\$ 30,922	Yes			X		X	
10510 GET SLS RSO Safety	\$ 229,889	Yes			X		X	
10981R GET PCF Construction Services	\$ 121,758	Yes			X		X	
11143 GET PPC Project Controls	\$ 127,223	Yes	X		X		X	
13257R Gen Major Projects West	\$ 275,466	Yes			X		X	
13440 Projects, Cntrlis & Cnstrctn	\$ 217,220	Yes	X		X		X	
<b>10591R GET ENG VP Eng Services</b>								
10275R Elec I&C Project / New Gen Eng	\$ 1,328,831	Yes			X		X	
10316R GET Eng Civil	\$ 13,382	Yes			X		X	
10591 VP Eng Services	\$ 1,202,015	Yes			X		X	
10863R Mechanical Civil and Chem Eng	\$ 2,078,645	Yes			X		X	
11950R Plant Eng & Compliance Programs	\$ 1,077,438	Yes			X		X	
12505R Engineering Technologies	\$ 435,407	Yes			X		X	
12960R GET Eng New Gen Engineering	\$ 72	Yes			X		X	
<b>10773R Environmental Services</b>								
10200R Air Quality Services	\$ 1,134,852	Yes		X	X		X	
10502R Water & Ecolog Resource Svcs	\$ 237,059	Yes		X	X		X	
10676R Land Env & Remediation Svcs	\$ 768,961	Yes		X	X		X	
10769R Analytical Chemistry Services	\$ 1,344,063	Yes		X	X		X	
10773 Environmental Services	\$ 866,371	Yes		X	X		X	
12813 ENV Management Systems	\$ 319,733	Yes		X	X		X	
13742 Env Risk Management	\$ 56,182	Yes	X	X	X		X	
<b>11487R OVEC/KEC</b>								
11487 OVEC/KEC	\$ (1,960)	No						
<b>11952R GBS BPS Business Planning</b>								
11902 GBS Project Accounting	\$ 9,109	Yes			X		X	
11952 GBS Generation Business Svcs	\$ 241,782	Yes			X		X	
12003R GBS BPS Business Process	\$ 72,813	Yes			X		X	
12138R GBS FBG Fin/Budgeting Anlys	\$ 20,996	Yes			X		X	
12868 GBS Document Management	\$ 62,570	Yes			X		X	
13663 GBS Performance & Analytics	\$ 51,850	Yes	X		X	X	X	
<b>11991 GEN EVP Generation</b>								
11991 GEN EVP Generation	\$ 516,239	Yes	X	X		X	X	
<b>12162R Reg Commercial Operations</b>								
11641 Energy Mktg, Renewable & JV's	\$ 130,335	Yes			X		X	
12162 Reg Commercial Operations Adm	\$ 747,020	Yes			X		X	
12969R Fuel Procurement	\$ 389,791	Yes			X		X	
13354 CAPS	\$ 239,775	Yes			X		X	
13357R Real Time Operations	\$ 2,042,474	Yes			X		X	
13358R Commercial & Financial Analysis	\$ 1,191,945	Yes			X		X	
<b>12916R AEP Transmission</b>								
<b>11515R Corp Safety &amp; Health</b>								
10196 Corp Industrial Hygiene	\$ 155,448	Yes		X	X		X	
10203R Safety&Health-Utility Ops	\$ 11	Yes		X	X		X	
10276R Process & Transmission Safety	\$ 55,053	Yes		X	X		X	
11515 Corp Safety & Health	\$ 223,205	Yes		X	X		X	
11977 S&H Contractor Oversight	\$ 53,340	Yes		X	X		X	
11978R Safety & Health - Generation	\$ 156,065	Yes		X	X		X	
<b>12539 Trans Charge-Offs</b>								
12539 Trans Charge-Offs	\$ 5,475	Yes			X	X		
<b>12904R Trans Field Services</b>								
11256R Trans Technical Services	\$ 1,844,414	Yes			X	X	X	
12884R Transmission Field Services	\$ 32,613	Yes			X	X	X	
12904 Trans Field Services	\$ 124,170	Yes			X	X	X	
13184R Trans Strategy, Ping & Bus Dev	\$ 181	Yes	X	X	X	X	X	
13695R Trans Field Services West	\$ 288,771	Yes			X	X	X	
13696R Trans Field Services East	\$ 141,837	Yes			X	X	X	
<b>12916 AEP Transmission Admin</b>								
12916 AEP Transmission Admin	\$ 212,181	Yes	X	X	X	X	X	
<b>13198 Trans - Forestry</b>								
13198 Trans - Forestry	\$ 2,834	Yes		X	X	X	X	
<b>13401R Trans Reliability Assurance</b>								
11177 Transm Reliability Compliance	\$ 91,221	Yes	X	X	X	X	X	
13401 Trans Reliability Assurance	\$ 47,765	Yes	X	X	X	X	X	
<b>13428R Trans Grid Development</b>								
10867R Trans Asset Strategy&Planning	\$ 1,875,124	Yes	X	X	X	X	X	
10914R Trans Engineer & Proj Svcs	\$ 2,816,333	Yes			X	X	X	
13428 Trans Grid Development	\$ 136,357	Yes			X		X	
<b>13589 Transmission Telecom</b>								
13589 Transmission Telecom	\$ 542	Yes			X	X		



Exhibit 7  
Page 3 of 3

## Southwestern Electric Power Company Necessity of AEPSC Services Analysis

AEPSC Department		Adjusted Test Year 2020 O&M Charges	Services Pertinent to SWEPCO?	Reason the Service is Necessary to SWEPCO					
				Governance	Compliance	Economies	Continuity of Service	Enterprise Standards	Other (A)
12916R	AEP Transmission (cont )								
13127R	Trans Ventures Strategy & Policy								
12824	Electric Transmission Texas	\$ 13,021	No						
13127R	Trans Asset Strategy & Policy	\$ 705,754	Yes	X	X	X	X	X	
13239R	Trans Bus Dev & Svcs	\$ 43,546	Yes		X	X			
13666	Trans Ventures Strategy & Policy	\$ 57,356	Yes	X		X			
13674	Transmission IT/OT								
13674	Transmission IT/OT	\$ 265,006	Yes			X	X	X	
13254R	Energy Supply								
11511XR	Commercial Operations								
11511R	Commercial Operations	\$ 32,329	No						
13254	Energy Supply Admin								
13254	Energy Supply Admin	\$ 115,744	No						
13263R	Utilities								
10828R	Distribution Central Depts								
13263	Utilities	\$ 169,570	Yes			X		X	
12358XR	Utility Operations Appalachian								
12358R	Utility Operations Appalachian	\$ 1,487	No						
12369XR	Utility Operations Ohio								
12369R	Utility Operations Ohio	\$ (13,533)	No						
12388XR	Kentucky Power Company								
12388R	Kentucky Power Company	\$ 9	No						
12397XR	Utility Operations Texas								
12397R	Utility Operations Texas	\$ 149	No						
12415XR	Utility Operations SWEPCO								
12415R	Utility Operations SWEPCO	\$ 2,700	Yes		X	X	X	X	
12905R	Performance Management								
11060R	Dist Asset Mgmt & Op Support	\$ 1,328,547	Yes		X	X		X	
12905	Performance Management	\$ 158,648	Yes	X		X		X	
13228R	Trans Proj/Financial Controls	\$ 104,393	Yes			X		X	
13287R	Trans Tech Svcs Training	\$ 414,374	Yes		X	X		X	
13591R	Trans Perf Rpt Anly Process Cntrl	\$ 239,615	Yes			X		X	
13592R	Trans Risk, Process & Systems	\$ 259,993	Yes	X		X		X	
13535R	External Affairs								
10243R	Corporate Communications								
10509R	Community Rel & Mktg Comms	\$ 22,840	Yes			X	X	X	
11418R	Creative Services	\$ 237,896	Yes			X	X	X	
11423R	External Communications	\$ 287,588	Yes			X	X	X	
12084R	Internal Comm & Comm Svcs	\$ 184,133	Yes			X	X	X	
12830R	Corporate Communications Admin	\$ 80,014	Yes	X		X	X	X	
10562	Federal Affairs								
10562	Federal Affairs	\$ 172,405	Yes	X	X	X	X	X	
10811R	Regulatory Services								
10811	Regulatory Services	\$ 471,208	Yes		X	X		X	
12313R	Regulatory Case Management	\$ 475	Yes		X	X		X	
13068R	Pricing & Analysis	\$ 769,993	Yes	X	X	X		X	
13423	Regulatory Rotational Program	\$ 52,841	Yes	X	X	X		X	
13534	Regulatory State Case Mgmt	\$ 797,595	Yes		X	X		X	
13536	FERC Regulatory Department	\$ 334,210	Yes	X	X	X		X	
13689	RTO Reg Services	\$ 163,646	Yes			X		X	
13754	Regulatory Strategy	\$ 9,618	Yes		X	X		X	
12734	Corporate Sustainability								
12734	Corporate Sustainability	\$ 125,559	Yes	X	X	X	X	X	
13424	RTO/NERC/RegulatoryIssues Mgmt								
13424	RTO/NERC/RegulatoryIssues Mgmt	\$ 1,243,434	Yes	X	X	X	X	X	
13498R	Chief Customer Officer								
10357R	Customer Operations	\$ 9,984,417	Yes			X	X		
11149R	Cust Strategy & Insights	\$ 448,032	Yes	X		X		X	
12425R	Cust Initiatives PMO	\$ 260,084	Yes			X			
12428R	Customer Services Support	\$ 723,053	Yes			X	X	X	
12630R	Economic & Business Developmnt	\$ 917,608	Yes			X			
13426	Customer Solutions	\$ 215,590	Yes			X	X	X	
13498	Chief Customer Officer	\$ 79,838	Yes	X	X	X	X	X	
13535	External Affairs Admin								
13535	External Affairs Admin	\$ 123,914	Yes		X	X		X	
NONBU	Orgs Excluded from BU View								
10894	Corp HR Admin Benefits								
10894	Corp HR Admin Benefits	\$ (2,338,590)	Yes						X
12139	Tax Entries & Payments								
12139	Tax Entnes & Payments	\$ 8,029	Yes						X
12984	USTI - Billing								
12984	USTI - Billing	\$ 100,947	Yes						X
99900	AEP Billings								
99900	AEP Billings	\$ (1,658,765)	Yes						X
99920	Billings from Assoc cos								
99920	Billings from Assoc Cos	\$ 5,784	Yes						X
Total Test Year 2020 O&M Charges to SWEPCO		\$92,509,781							

Note A Other includes (1) AEPSC accounting processes and (2) AEPSC management/operations

Source: AEPSC information; Baryenbruch & Company, LLC, analysis

## VI – Governance Practices Applied to AEPSC Charges

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A number of management oversight practices and controls exist to ensure that AEPSC charges to SWEPCO are necessary and reasonable. The most important of these review, approval and monitoring mechanisms are described below.

### Management Oversight

The following are the principal enterprise-level governance bodies whose scope includes AEP corporate-wide planning, budgeting and cost management:

- AEP Board of Directors - The Board reviews strategy, plans, budgets, major variances from plan/budget and year-end re-projections.
- Executive Team (ET) - The ET participates in Board meetings, earnings meetings and other ad hoc meetings, as necessary. The ET is composed of AEP's Chief Executive Officer (CEO), Executive Vice President Utilities (EVP Utilities), Chief Financial Officer (CFO), Chief Administrative Officer (CAO) and Executive Vice President and General Counsel.
- Executive Council (EC) – The EC participates in Board meetings, as necessary, and in monthly earnings meetings. The EC includes ET members, as well as operating company presidents, executive vice presidents of transmission and generation, and senior vice presidents of the regulatory, commercial operations and shared services functions.
- Investment Review Committee (IRC) - The IRC consults with each operating company and AEPSC functions twice annually to review the status of long-range forecasts and annual budgets. Its members include AEP's CEO, EVP Utilities, CFO and the senior vice president of Corporate Planning and Budgeting.
- Subsidiary Company Boards of Directors - Each AEP subsidiary company has its own Board that meets monthly to approve financings and monitor budget/actual spending. Subsidiary boards are comprised of company presidents and other AEP senior executives.

Exhibit 8 (page 26) describes the various forums in which these governance bodies carry out their governance responsibilities. Forums that include SWEPCO management personnel are shaded to illustrate the company is sufficiently represented.

Besides these enterprise-wide governance bodies, the following entities exist to oversee the use of resources within AEP's functional organizations:

- Distribution Leadership Team – Membership includes the VP-Customer Operations and Distribution, VPs of operating company Distribution, VP of Transmission Regional Operations and other functional management representatives (e.g., regulatory, human resources). The group holds weekly and monthly conference calls and periodic in-person meetings to cover the following
  - Review budgets and plan/actual spending status
  - Operational experiences, best practices and lessons learned
  - Other topics (e.g., safety), as appropriate.
- Generation Project Management Review Group (GPMRG) – Membership includes VPs of operating company Generation, senior Generation management and key personnel

## VI – Governance Practices Applied to AEPSC Charges

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from the operating companies, IT, regulatory, environmental safety and health and supply chain. The group holds monthly meetings that cover the following:

- Review and approve new projects
  - Monitor the status of projects currently underway, including plan/actual spending status, current estimates and achievement of planned benefits
  - Identify ideas on how to improve resource utilization and optimize generation unit performance.
- Transmission Project Management Review Group (TPMRG) – Membership includes the Senior Vice President of Transmission, senior Transmission management and finance personnel. The group holds monthly meetings that cover the following:
  - Review and approve new projects
  - Monitor the status of projects currently underway, including plan/actual spending status, current estimates and achievement of planned benefits
  - Estimate capital spending and prioritize available resources.
- Functional IT Governance Operating Committees (ITOC) – There are five ITOC groups: (1) Transmission, (2) Customer and Distribution Services, (3) Commercial Operations and Energy Supply, (4) Generation and (5) Cook Nuclear Plant and Ohio Valley Electric Corporation. Each ITOC performs the following for the functional areas they represent:
  - Review and approve business cases for proposed projects based on cost/benefit analysis and alignment with AEP strategic objectives and goals
  - Prioritize proposed IT projects within the IT roadmap
  - Support approved IT projects throughout the corporate-wide approval process.

## Southwestern Electric Power Company AEP Executive Governance Forums

Governance Forum	Participants	Frequency	Purpose
<b>Board of Directors Meetings</b>	Board of Directors, Executive Team, Executive Council	8 times/year	<ul style="list-style-type: none"> <li>Review CFO Report (all meetings) – variances to budget, year-over-year earnings results and year-end re-projections</li> <li>Discuss strategic issues (September)</li> <li>Review control budget, approve capital "total spending limit" (December/January)</li> </ul>
<b>Investment Review Committee (IRC) Meetings</b>	EVP Utilities, CFO, Operating Company (OpCo) Presidents, Sr BU Management, SVP CP&B	2 times/year (late spring, fall)	<ul style="list-style-type: none"> <li>Review/approve corporate group plans/budgets (late spring)</li> <li>Review/approve operating company long-range plans and annual control budgets (fall)</li> <li>Review control budget, approve capital "total spending limit" (December/January)</li> </ul>
<b>Ad-Hoc Executive Team/ EC Meetings</b>	Executive Team/Executive Council	As needed	<ul style="list-style-type: none"> <li>Meet as needed to set/discuss earnings targets, results, rejections, determine corrective action as required</li> </ul>
<b>Quarterly Goals Meetings</b>	All AEP vice presidents and above	Quarterly	<ul style="list-style-type: none"> <li>Focus on priorities, challenges and execution of plans</li> </ul>
<b>Quarterly Presidents Meetings</b>	EVP Utilities, OpCo Presidents, Sr BU Management	Quarterly	<ul style="list-style-type: none"> <li>Focus on priorities, challenges and execution of plans</li> </ul>
<b>Monthly Subsidiary Company Board Meetings</b>	Subsidiary Company Boards' members (includes OpCo presidents and other AEP senior executives), CFO Sr Leadership Team	Monthly	<ul style="list-style-type: none"> <li>Approve capital/lease improvement requisitions; monitor variances to total spending limit</li> </ul>
<b>Monthly Earnings Meetings</b>	Executive Team/Council, OpCo Regulatory & Financial VP's, BU Budget Coordinators, CFO Sr Leadership Team	Monthly	<ul style="list-style-type: none"> <li>Report variances to budget, year-over-year earnings results and year-end re-projections</li> </ul>
<b>Monthly Performance Review (MPR) Meetings</b>	COO, CFO, SVP CP&B, OpCo Presidents	Monthly	<ul style="list-style-type: none"> <li>Discuss variances to budget, year-end earnings and capital spend outlook and corrective action plans as required</li> </ul>
<b>Bi-Weekly Touchpoint Meetings</b>	CP&B Leadership, OpCo Reg & Financial VP's and staffs, BU Budget Coordinators	Every other week (or as needed)	<ul style="list-style-type: none"> <li>Focus on status/issues/assumptions relative to budgeting, forecast updates and long-range planning efforts</li> </ul>

 Forums with SWEPCO executive representation

Source: AEPSC information

## VI – Governance Practices Applied to AEPSC Charges

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### Budgeting Process

Operating Companies and functional groups develop operational plans. Corporate Planning and Budgeting develop O&M and capital targets which provide direction in the preparation of AEPSC's budget.

- **Longer Range Planning** – Before the budget process begins, the Long-Range Financial Forecast is updated based on input from AEP's Operating Companies, including SWEPCO. Performance targets from the prior year's plan are evaluated and updated based on changes in business conditions. An important focus is the allocation of limited resources across AEP business units. If necessary, SWEPCO leadership has the opportunity to meet with AEP's Executive Team to petition for adjustments to its resource allocation. The end product of this planning process is an updated Long-Range Financial plan for each operating company, including SWEPCO. That plan is approved by SWEPCO management and the Investment Review Committee. AEP's Board of Directors subsequently approves AEP's consolidated Long-Range Financial Plan.
- **Budget Year Goal and Target Setting** – The Corporate Planning and Budgeting group (CP&B) uses the updated Long-Range Financial Plan to develop budget year targets for O&M and capital spending for every AEP operating company. Budget guidelines and assumptions are also developed for more specific matters such as staffing levels, fringe rate levels and salary escalations. Initial spending targets and budget assumptions are reviewed and approved by AEP's Executive Team.
- **AEPSC Budget Development, Review and Approval** – Based on the approved guidelines and assumptions, AEPSC develops its overall budget and budgeted charges to each operating company. This information is presented for approval to the Investment Review Committee. Operating company presidents are involved in these meetings to understand the impact of AEPSC's spending on their total budgets.
- **Operating company Budget Development, Review and Approval** – SWEPCO builds its direct budget based on its spending targets and budget guidelines. SWEPCO's overall spending targets are apportioned to each function (e.g., generation, transmission, distribution). Departments then develop their detailed next calendar year budgets broken down by month and cost type. The approved department budgets are submitted to CP&B which consolidates them with budgeted AEPSC charges to arrive at SWEPCO's total "control" budget. Once SWEPCO's leadership team completes its reviews and approval, the control budget is submitted to CP&B.
- **Review and Final Approval** – Operating company control budgets are consolidated by CP&B which re-runs allocations to produce updated control budgets for each operating company. Updated budgets are submitted to the Operating Companies for their final review and approval. Once signoff is received from Operating Companies, the control budgets proceed through a series of reviews and final approval by:
  - Investment Review Committee
  - Executive Team
  - Board of Directors

## VI – Governance Practices Applied to AEPSC Charges

### Variance Analysis Process – AEPSC

Every month, CP&B prepares a set of variance reports covering the following aspects of AEPSC spending:

- Actual current year month/year-to-date versus budget current year month/year-to-date
- Actual for current year month/year-to-date versus actual for previous year month/year-to-date

CP&B researches material variances and assembles the information into a package for review by AEPSC management. AEPSC's spending status is also reviewed on monthly or quarterly basis by the Executive Team and Executive Council.

Each month, AEPSC's Accounting organization prepares bills for each affiliate showing AEPSC actual versus budget charges by AEPSC group, cost category and function. Before they are sent to Operating Companies, AEPSC Accounting performs a preliminary review of the bills to identify and flag unusual charges. AEPSC Accounting makes available the detailed AEPSC billing file, which operating company personnel can query for use in their own variance analysis process.

### Variance Analysis Process – SWEPCO

SWEPCO's own variance analysis process requires that material variances between actual and budgeted AEPSC charges be researched and explained. Every month, SWEPCO receives an email from AEPSC with links to two actual versus budget reports (current month and year-to-date) of AEPSC's billing to SWEPCO. As an initial step, SWEPCO's VP Regulatory and Finance reviews the actual versus budget charges by group/department, function and cost category. The bills are also scrutinized to determine that SWEPCO was charged by appropriate AEPSC groups/departments.

The review covers charges by function and cost type to determine whether all appear to be appropriate billings to SWEPCO. Where charges look unusual, SWEPCO contacts AEPSC's accounting staff and, if necessary, requests that these charges be reviewed. This initial review is done on a high level, based on the VP Regulatory and Finance's knowledge of the services provided by AEPSC to SWEPCO.

AEPSC's monthly bills are reviewed in detail by SWEPCO's Business Operations unit, which reports to SWEPCO's VP Regulatory and Finance. A budget analyst runs a query against the AEPSC billing file to obtain a lower level of detail. The analyst reviews every charge/line item over \$1,000 billed to SWEPCO and every charge for which SWEPCO was billed 100%. These transactions are reviewed for reasonableness, appropriateness of the AEPSC departments charging and appropriateness of accounts and cost categories charged. Follow-up questions are directed to AEPSC accounting staff in Columbus, who research the questions and reply with a proposed correction or an explanation of why the charges are appropriate.

SWEPCO's management team presents SWEPCO's budget status to AEP's entire leadership group (vice presidents and above) at the Quarterly Goals Meeting. SWEPCO management must identify and explain the drivers of material spending variances, including those associated with charges from AEPSC.

## VI – Governance Practices Applied to AEPSC Charges

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### Reviews of Allocation Factors

Allocation factor unit statistics upon which AEPSC allocations are based are updated monthly, quarterly, semi-annually or annually. Changes in unit statistics from one period to the next are identified, researched and validated before the next allocation cycle runs.

Events that will affect allocation factor unit statistics are evaluated in advance to ensure a proper cutoff/starting point is established for the associated units. For instance, if the decision is made to retire a power plant, AEPSC's Accounting Department will then plan for the date on which the plant's statistics are to be removed from the related allocation factors. For instance, the retired plant's MW capacity must be removed from allocation factor 48 – MW Generating Capacity as of the date the plant is shut down.

### Accounting Controls/Transaction Validation

Internal controls incorporated into accounting processes ensure that transactions are validated at the point of origination and that they receive proper levels of authority review and approval. AEP's financial systems automate these controls and facilitate their consistent application and effectiveness. Controls are scrutinized and tested in connection with regular reviews mandated by Section 404 of the Sarbanes Oxley Act of 2002.

### Audit and Regulatory Oversight

AEPSC is subject to the following audit and reporting requirements by federal and state jurisdictions:

- Annual independent audit of AEP by Pricewaterhouse Coopers (PwC).
- Audit required under PUC Substantive Rule 25.272, "Code of Conduct for Electric Utilities and Their Affiliates," filed every three years, showing compliance with Texas affiliate code of conduct.
- Annual "Report of Affiliate Activities" filed with the PUC.
- Annual Affiliate Activities report filed with the Virginia State Corporation Commission.
- Annual report of AEPSC financial and allocation information in FERC Form 60
- Periodic audits of AEPSC accounting and billing procedures conducted by the FERC staff
- Periodic audits of AEPSC accounting and billing procedures conducted by the AEPSC Internal Audit Department.
- Quarterly review and update of significant internal control procedures as required by the Sarbanes Oxley Act.

### Cost Allocation Manual

AEPSC maintains an Accounting Policy and Cost Allocation Manual (CAM) that documents the process by which it assigns costs to affiliates. Baryenbruch & Company, LLC's, review of the CAM found it to be a very comprehensive reference document that provides thorough directions to AEPSC personnel responsible for assigning expenses to SWEPCO.

## VI – Governance Practices Applied to AEPSC Charges

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The practices described above support the conclusion that the governance structure and processes applied to AEPSC's charges directly contribute to ensuring that AEPSC's services are necessary to SWEPCO. Furthermore, AEP's governance practices ensure AEPSC charges to SWEPCO are accurate and reasonable



## VII – Reasonableness of AEPSC A&G Charges to SWEPCO

### SWEPCO's AEPSC A&G Charges per Customer

As calculated in the table below, AEPSC charged SWEPCO \$100 per customer during Test Year 2020 for A&G-related services, which are recorded in the 900 series FERC accounts.

FERC Account	Test Year Ending 3/31/2020 Amount
901 - Supervision - Customer Accounts	\$ 83,498
902 - Meter Reading Expenses	\$ 142,955
903 - Customer Records & Collection Expenses	\$ 12,955,284
905 - Misc Customer Accounts Expenses	\$ 29,178
907 - Supervision - Customer Service	\$ 146,610
908 - Customer Assistance Expenses	\$ 78,049
910 - Misc Cust Service & Informational Expenses	\$ 27,409
911 - Supervision - Sales Expenses	\$ 2,160
912 - Demonstrating & Selling Expenses	\$ 133,066
920 - Administrative & General Salaries	\$ 28,107,427
921 - Office Supplies and Expenses	\$ 1,948,525
923 - Outside Services Employed	\$ 4,610,877
924 - Property Insurance	\$ 1,736
925 - Injuries and Damages	\$ 27,153
928 - Regulatory Commission Expenses	\$ 1,811,205
930.1 - General Advertising Expenses	\$ 22,306
930.2 - Misc General Expenses	\$ 642,145
931 - Rents	\$ 74,873
935 - Maintenance of General Plant	\$ 3,037,626
Total AEPSC A&G Charges	\$ 53,882,079
Total SWEPCO Customers at 3/31/2020	539,596
<b>AEPSC A&amp;G Charges per Customer</b>	<b>\$ 100</b>

Source: AEPSC information, Baryenbruch & Company, LLC analysis

### Comparison Group A&G Charges Per Customer

In order to make a valid comparison of the comparison group's costs to those of AEPSC charges to SWEPCO, it was necessary to isolate expenses that they have in common. These include A&G-related charges associated with the following FERC accounts:

901 – Supervision – Customer Accounts	921 – Office Supplies and Expenses
902 – Meter Reading Expenses	923 – Outside Services Employed
903 – Customer Records and Collection Expenses	925 – Injuries and Damages
904 – Uncollectible Accounts	926 – Employee Pensions and Benefits
905 – Misc Customer Accounts Expenses	928 – Regulatory Commission Expenses
907 – Supervision	930.1 – General Advertising
908 – Customer Assistance Expenses	930.2 – Miscellaneous General Expenses
910 – Misc Customer Service and Info Expenses	931 – Rents
912 – Demonstrating and Selling Expenses	935 – Maintenance of Structures and Equipment
920 - Administrative and General Salaries	

Charges to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity's FERC Form 60. This schedule shows charges by FERC Account.

## VII – Reasonableness of AEPSC A&G Charges to SWEPCO

The 2019 expenses for comparison group service companies were also adjusted to remove charges to non-regulated affiliates from the cost pool used to calculate the cost per regulated retail service customer. This determination was made using information from the FERC Form 60 schedule: Account 457 – Analysis of Billing – Associate Companies.

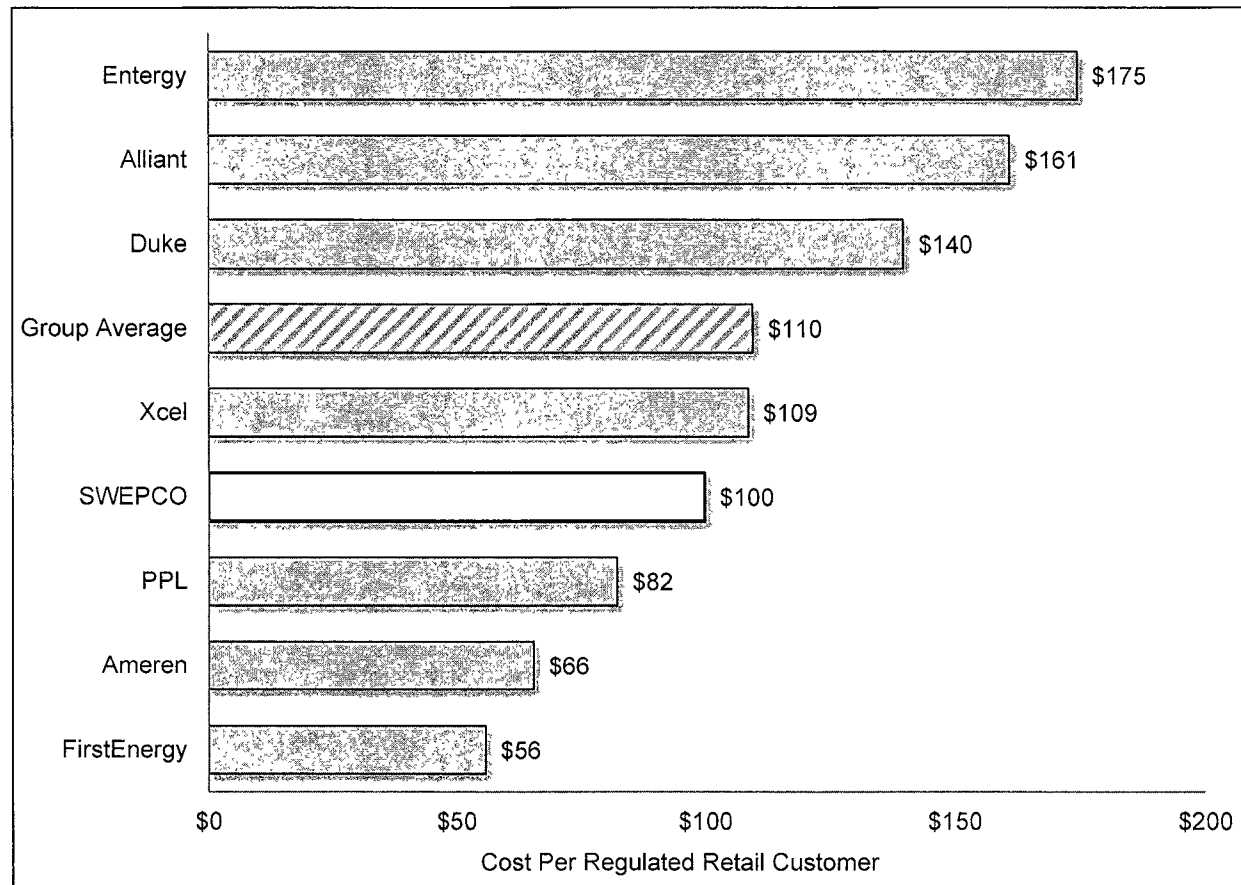
The table below shows calculations for 2019 A&G expenses per regulated utility customer charged by the service companies owned by the 7 utility holding companies in the comparison group.

Utility Holding Company	2019 Regulated Retail Service Company A&G Expenses	Regulated Retail Customers	Cost per Regulated Retail Customer
Alliant	\$223,514,406	1,388,623	\$ 161
Ameren	\$216,312,249	3,300,000	\$ 66
Duke	\$1,271,493,598	9,100,000	\$ 140
Entergy	\$540,994,088	3,100,000	\$ 175
FirstEnergy	\$335,235,444	6,000,000	\$ 56
PPL	\$222,234,517	2,700,000	\$ 82
Xcel	\$618,945,219	5,700,000	\$ 109
Total/Average	\$3,428,729,521	31,288,623	\$ 110

Source: FERC Form 60, 10Ks, annual reports; Baryenbruch & Company, LLC, analysis

Exhibit 9 (page 33) shows SWEPCO's 2015 AEPSC A&G charges per customer of \$100 are less than the annual average of \$110 per customer for the service companies in the comparison group. SWEPCO's \$100 annual charge is lower than four and higher than three of these companies. This result supports the conclusion that AEPSC's Test Year 2020 charges to SWEPCO are reasonable.

**Southwestern Electric Power Company  
Service Company Administrative and General Charges Per Regulated Customer**



Source: FERC Form 60; annual reports; AEPSC data; Baryenbruch & Company, LLC, analysis

## VIII – Reasonableness of SWEPCO's Total A&G Expenses

### SWEPCO's Total A&G Expenses per Customer

Benchmarking SWEPCO's total A&G expenses per customer provides a broader cost view by which to judge the reasonableness of AEPSC A&G-related charges. In this case, the cost per customer numerator includes A&G expenses incurred directly by SWEPCO plus those charged to it by AEPSC. The metric provides an all-inclusive picture of SWEPCO's A&G expenses compared to other integrated utilities.

During the Test Year 2020, SWEPCO's total A&G expenses per customer were \$194, as calculated in the table below. One A&G FERC account, 926, total employee pension and benefits, includes charges related to all functional O&M labor (generation, transmission and distribution, as well as A&G) and construction (capital) labor. Only Test Year account 926 expenses that relate to A&G activities are included in the A&G cost per customer calculation.

### SWEPCO Total A&G Expenses for Year Ending March 31, 2020

FERC Acct	FERC Acct Description	Total
901	Supervision	\$ 781,491
902	Meter Reading Expenses	\$ 2,614,840
903	Cust Records & Collection Expenses	\$ 17,797,556
904	Uncollectible Accounts	\$ 724,395
905	Misc Customer Accounts Expenses	\$ 101,498
907	Supervision	\$ 7,429,119
908	Customer Assistance Expenses	\$ 15,029,496
909	Information & Instructional Advrtising	\$ -
910	Misc Customer Service & Informational Expenses	\$ 27,409
911	Supervision Sales	\$ 2,198
912	Demonstrating & Selling Expenses	\$ 265,976
920	Administrative & Gen Salaries	\$ 32,325,718
921	Office Supplies & Expenses	\$ 2,947,644
922	Administrative Expense Transfer - Credit	\$ (4,430,969)
923	Outside Services Employed	\$ 9,712,500
924	Property Insurance	\$ 2,428,223
925	Injuries and Damages	\$ 3,657,677
926	Employee Pensions & Benefits (A)	\$ 968,423
928	Regulatory Commission Expenses	\$ 2,624,761
930	Misc General Expenses	\$ 2,042,309
931	Rents	\$ 1,008,537
935	Maintenance of General Plant	\$ 6,436,014
	Total Testable SWEPCO A&G Expenses	\$ 104,494,816
	Total SWEPCO Customers at March 31, 2020	\$ 539,596
	<b>SWEPCO Test Year Total A&amp;G Expenses per Customer</b>	<b>\$ 194</b>

Note A: Includes only the A&G-related portion of 926 Employee Pensions and Benefits

Source: AEPSC data; Baryenbruch & Company, LLC, analysis

## VIII – Reasonableness of SWEPCO's Total A&G Expenses

### Comparison Group A&G Expenses per Customer

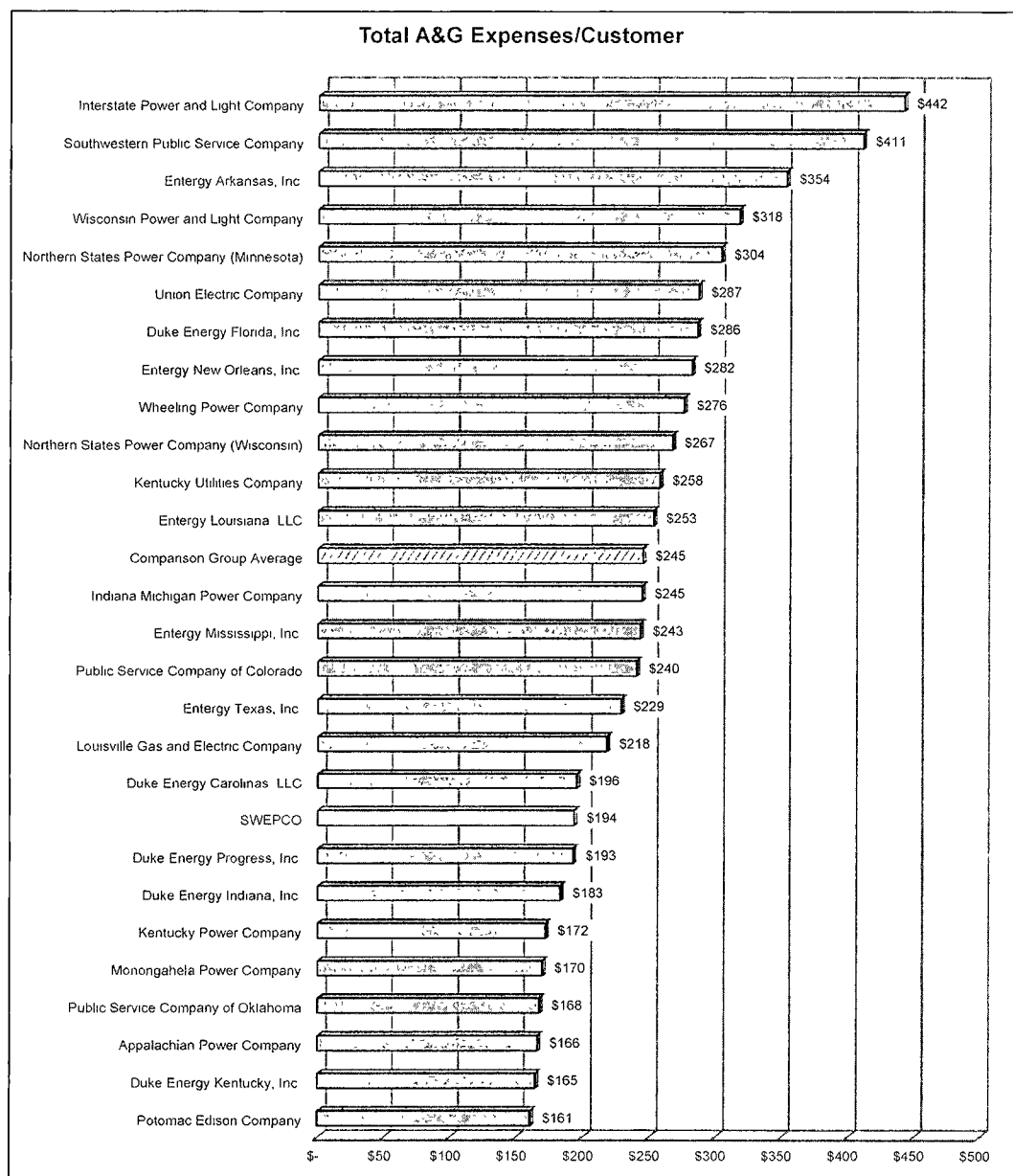
Besides SWEPCO, there are 34 integrated regulated utilities owned by AEP and the ten utility holding companies in the comparison group. Each utility's 2019 A&G expenses were obtained from the FERC Form 1 for the following FERC accounts. These are the same accounts that SWEPCO recorded expenses to during Test Year 2020.

901 – Supervision – Customer Accounts	920 - Administrative and General Salaries
902 – Meter Reading Expenses	921 – Office Supplies and Expenses
903 – Customer Records and Collection Expenses	922 – Admin Expenses Transferred – Credit
904 – Uncollectible Accounts	923 – Outside Services Employed
905 – Misc Customer Accounts Expenses	924 – Property Insurance
907 – Supervision	925 – Injuries and Damages
908 – Customer Assistance Expenses	926 – Employee Pensions and Benefits
909 – Information and Instructional Advertising	928 – Regulatory Commission Expenses
910 – Misc Customer Service and Info Expenses	930 – Miscellaneous General Expenses
911 – Supervision Sales	931 – Rents
912 – Demonstrating and Selling Expenses	935 – Maintenance of Structures and Equipment

Exhibit 10 (page 36) shows SWEPCO's Test Year 2020 A&G charges per customer of \$194 are less than the 2019 average of \$245 per customer for the comparison group integrated utilities. SWEPCO's \$194 annual charge is lower than 18 comparison group utilities and higher than 8. This result supports the conclusion that AEPSC's Test Year 2020 charges to SWEPCO are reasonable.

Exhibit 10

**Southwestern Electric Power Company  
Total A&G Expenses per Customer**



Source: FERC Form 1; Baryenbruch & Company, LLC, analysis

## IX – Provision of AEPSC Services at No Higher Cost Than to Other Affiliates

### **AEP Financial Systems**

The following are AEP's systems that provide the capability to account for AEPSC's costs and assign them to affiliates it serves:

- General Ledger System (PeopleSoft Financials) – Maintains the official financial record for AEP System companies. PeopleSoft Financials includes an inter-company billing module that automates accounting for transactions among affiliates. There is also a project costing module that is used for, among other things, work order accounting.
- Asset Accounting System (PowerPlant) – Capital work order and project cost accounting
- Asset Work Management System (multiple systems) – Work management systems used by generation, transmission and distribution functions. Among other things, work orders can be set up in these systems.
- Time Reporting System (multiple systems) – Employee time reporting and labor accounting.
- Accounts Payable System (PeopleSoft Financials) – Vendor purchase and payment accounting.
- Materials and Supplies (multiple systems) – Materials and supplies inventory accounting
- Travel Expense System (PeopleSoft Expenses) – Business travel expense accounting.

AEPSC accounts for all transactions through a work order system. Expenditures for support services (O&M and A&G expenses) and capital services are accumulated in work orders.

AEP System transactions are assigned a set of information also known as "Chartfields." That consists of the 12 elements of information described below. This data is used within the financial systems to account for AEPSC transactions and assign costs to affiliates such as SWEPCO.

#### General Ledger Chartfields

- General Ledger Business Unit – AEP System company or company segment.
- Account Number – Balance sheet or income statement account; the first 4 digits of each account number represents its FERC account.
- Department ID – Organization responsible budgeting for and reporting on a transaction.
- Product Code – Field available for product or service (not a required field).
- Affiliate Code – Identifies transactions conducted with an affiliate business unit.
- Operating Unit – Subdivides transactions for purposes of special reporting (e.g., taxes, rate cases).

#### Project Chartfields

- Project Costing Business Unit – Organization responsible for budgeting and reporting on a project's costs.
- Project ID – Unique project identifier used for budgeting and reporting purposes.
- Work Order – Mechanism by which to capture and bill costs and connect transactions with a project. Work orders have an attribute to designate the location (e.g., legal entity such as SWEPCO or functional group such as AEP-wide transmission) that benefits from the work. Allocation factors can also be assigned to work orders.
- Cost Component – Type of cost (e.g., labor, travel, materials, outside services).
- Activity Code – Identifies the business activity being performed (e.g., process payroll). Allocation factors are assigned to activity codes.
- Tracking Code – Subdivides transactions for cost tracking purposes (not a required field).

## IX – Provision of AEPSC Services at No Higher Cost Than to Other Affiliates

The following two Chartfields provide the key information necessary to drive the allocation and assignment of AEPSC costs to affiliates:

- Work Order – At the time they are set up, work orders are assigned Benefiting Locations (e.g., legal entity such as SWEPCO or functional group such as SWEPCO transmission) to which the work order's costs are allocated. Work orders are also assigned an allocation factor which defines the basis (e.g., customer count, transmission pole line miles) upon which its costs are allocated to affiliates that benefit from the associated service. There are two types of work orders:
  - Specific Work Orders – Captures the costs of project-related work. Examples include the upgrade of a financial system, construction of a transmission line and rate case expenses.
  - General Work Orders – Captures the costs of on-going services provided to affiliates. Examples include preparing internal financial reports and performing fuel accounting.
- Activity Code – Each activity is assigned an allocation factor.

A critical start to the allocation process occurs when new work orders and activities are set up. At this point, they are assigned a benefiting location and allocation factor. New activities are assigned an allocation factor when they are set up. An employee requesting a new AEPSC work order provides the Corporate Accounting Department with a description of the nature of the work to be performed, the Business Units that will benefit and the allocation factor. The request is reviewed and must be approved by the manager with supervisory responsibility for the work to be performed. The Corporate Accounting Department is also responsible for reviewing and approving new AEPSC activities. All of these steps ensure that allocation factors are consistently applied.

### Cost Pooling, Allocation and Assignment Processes

AEPSC assigns costs to regulated and unregulated affiliates on a fully distributed cost basis. Fully distributed costs include all direct costs plus an appropriate share of indirect and common costs which are defined below.

AEPSC Cost Elements	Cost Pooling/Distribution
Salaries (Productive)	Charged to Work Orders
Labor Indirect Costs	Aggregated and charged to Work Orders based on:
Nonproductive Labor	Productive salaries
Fringe Benefits	Productive and non-productive salaries
Payroll Taxes	Productive and non-productive salaries
Incentives	Productive and non-productive salaries
Non-Labor Costs	Charged to Work Orders
Outside Spending	
Employee Expenses	
Transportation	
Miscellaneous	
Shared Services Department Costs	Support for AEPSC affiliates - charged to Work
Information Technology	Orders based on benefiting locations and allocation
Human Resources	factors
Real Estate & Workplace Services	
Shared Services Department Costs	Support for AEPSC departments -
Information Technology	Step 1 - first charged to Work Orders based on
Human Resources	benefiting location (AEPSC) and allocation factors
Real Estate & Workplace Services	Step 2 - Work Order balances are allocated to
	AEPSC locations based on productive salaries
	Step 3 - AEPSC location balances are allocated to
	affiliates based on AEPSC productive salaries

Source: Company information; Baryenbruch & Company, LLC, analysis



## IX – Provision of AEPSC Services at No Higher Cost Than to Other Affiliates

Where possible, AEPSC directly charges affiliates for the cost of its services. In those instances where direct charging is not possible or practical because more than one affiliate is the recipient of a service, AEPSC allocated the associated expenses to the benefiting affiliates. AEP utilized 41 active allocation factors to assign AEPSC costs to affiliates. As shown in the table below, one factor is “direct charge,” where all work is performed for one benefiting location. The remaining 40 allocation factors are applied where services have multiple benefiting locations.

Allocation Basis Category	Number of Active Allocation Factors
Direct Charge	1
Assets	8
Customers/Unit Sales	5
Employees	1
Expenditures	5
Fuel	5
Unit Usage	15
Other	1
Total	41

Source: Cost Allocation Manual; Baryenbruch & Company, LLC, analysis

### Evaluation

Baryenbruch & Company, LLC, evaluated the design of AEP’s systems and accounting processes that allocate and assign AEPSC’s costs to affiliates it services. The following criteria were considered in this examination:

1. Separate books of accounts and records should be maintained for AEPSC
2. Costs are allocated and assigned on a fully distributed cost basis
3. Services are priced the same for all affiliates
4. Allocation factors are associated with cost causation
5. Allocation factors are common and reasonable
6. Cross-subsidization is avoided

Based on Baryenbruch & Company, LLC’s, evaluation, the following conclusions were reached:

1. Separate books of accounts and records are maintained for AEPSC. AEP’s financial systems and data structures (e.g., data elements and configuration) provide the capability to separately account for AEPSC’s costs. AEPSC is set up as a separate legal entity and business unit in the PeopleSoft Financials System. Transactions incurred by AEPSC are assigned to AEPSC’s business unit number within the systems that capture transaction information. Separate financial reports are prepared for AEPSC as evidenced by its internal financial statements and FERC Form 60. AEP’s CAM describes in considerable detail the various aspects of accounting for and allocating AEPSC costs.
2. AEPSC costs are allocated and assigned on a fully distributed cost basis. AEP’s accounting processes for direct and indirect costs result in the assignment of AEPSC’s fully distributed costs to affiliates. In particular, the accounting for labor overheads (e.g., non-productive time, benefit plan expenses) and AEPSC Shared Services departments’ costs results in the assignment of fully loaded costs to all affiliates. Here, too, the design of AEP’s financial systems enables cost pooling and allocation processes that produce fully distributed costs.

## IX – Provision of AEPSC Services at No Higher Cost Than to Other Affiliates

- Services are priced the same to all affiliates; that is, at AEPSC's cost of providing the service. AEP's accounting processes ensure that AEPSC services are priced the same for all affiliates. Salaries of AEPSC employees are loaded on a consistent basis with the same indirect costs so that all affiliates they support are charged the same cost components.

There is a formal process for assigning work orders and activities with cost allocation-related information (benefiting locations and allocation factors). The assignments are reviewed and approved by AEPSC's Accounting Department, which enters the information into the financial systems. All of this helps ensure affiliates benefiting from AEPSC services are assigned their appropriate share of the costs.

AEPSC also uses the combination of work order and activity to break down work activities in considerable detail for purposes of work management and cost allocation. This is illustrated in the table below, which shows the number of activities for each of the largest AEPSC work orders. This work-breakdown practice facilitates precise assignment of allocation factors and benefiting locations based upon the specific nature of work activities.

Largest AEPSC Work Orders (A)		Test Year 2020 Total Charges	Number of Activities
1	G0001060 All Companies	\$ 93,467,980	4,632
2	SP00362001 SCCO All Cos exclud Transource	\$ 68,926,113	1,530
3	G0001468 All Distribution Companies	\$ 56,888,333	1,360
4	SITCP12001 EAR - WAM Implementation -CAP1	\$ 32,058,396	2,843
5	SITCQ28401 Data Center 2 Phs 2 - IT CAP	\$ 26,695,442	2,298
6	4258614701 O&M ALLOCATION ALL TRANSMISSIO	\$ 21,672,687	1,499
7	T000000101 ALL TRANS CO O	\$ 21,300,681	1,747
8	G0000250 OP DISTRIBUTION	\$ 15,884,331	161
9	SP01097701 FOSSIL O&M ADMIN OVRHD-All Gen	\$ 14,354,298	432
10	SCCO154701 COLUMBUS REGION TRANS PLNG	\$ 13,659,456	84
11	SP00361302 Planning - Capital Pre Gate .5	\$ 11,991,001	60
12	SITCT15301 HEM Imp Licensing 2 - CAP	\$ 11,036,541	9
13	SITCS21701 WAM Wave 1.5-Cook-CAP	\$ 10,906,071	8
14	G0001632 Dist All Cos-Retail Cust Only	\$ 10,122,964	162
15	SXCELENT01 Excellence initiative	\$ 10,111,684	4,189
16	SITCQ21801 Cust Rel Mgmt Req - CAP	\$ 9,849,215	165
17	SHRPROFS01 Actual exp - HR Prof Spt S002	\$ 9,606,850	928
18	G0000140 APCO Distribution	\$ 9,494,969	76
19	SCCO185801 I&M REGION TRANS PLNG	\$ 9,479,160	70
20	SITCS48801 ESRI ELA Renewal 2019 - CAP	\$ 9,221,917	102

Note A: SWEPCO is not assigned charges from all of these work orders. This analysis is meant to show the extent to which separate allocations can be applied to the numerous activities associated with AEPSC's work orders.

Source: AEPSC information; Baryenbruch & Company, LLC, analysis

The allocation of AEPSC's Test Year 2020 costs to SWEPCO were found to correlate with SWEPCO's proportion of allocation factor units. This is illustrated in Exhibit 11 (page 42), which compares SWEPCO's percentage of the total AEPSC Test Year 2020 O&M charges to SWEPCO's percent of total units by allocation factor. This provides evidence that SWEPCO is paying no higher costs for AEPSC services than its affiliates.

## IX – Provision of AEPSC Services at No Higher Cost Than to Other Affiliates

4. Allocation bases are associated with the underlying cost causation. Exhibit 12 (page 43) shows Baryenbruch & Company, LLC's analysis of AEPSC's allocation factors used during Test Year 2020. Each was found to be directly related to cost causation (direct charge or operationally related to the underlying costs) or involve a reasonable allocation basis for activities that are broad in scope or are non-operational in nature.
5. AEPSC's allocation factors are commonly employed by other utility holding companies to allocate the costs of their service companies. As shown in Exhibit 13 (page 44), all of AEP's active allocation factors except one are used to allocate service company costs by one or more comparison group utility holding companies. The sole exception is 40 Equal Share Ratio, which uses number of companies as its basis for allocation. A relatively small amount of AEPSC costs are allocated by this ratio, so its unique nature does not put AEPSC's allocation factors out of line with common utility industry practice. Furthermore, AEPSC's allocation factors have been evaluated and accepted by FERC as fair for allocating AEPSC common costs to AEP System affiliates.
6. Cross subsidization is avoided. The previously discussed analysis of AEPSC's largest 20 work orders shows a fair distribution of common support costs to regulated and unregulated AEP affiliate companies alike. Also, AEP's financial systems are configured to properly assign AEPSC costs to all affiliates that benefit from its services.

The evidence presented above supports the conclusions that AEPSC charges all affiliates at its fully distributed costs, that the factors used to allocate AEPSC's costs are reasonable and that the AEPSC billings to SWEPCO included in Test Year 2020 meet the "no higher than" standard of PURA section 36.058.

Exhibit 11

Southwestern Electric Power Company  
Proportion of SWEPCO Units and AEPSC O&M Charges for Allocation Factors  
During Test Year 2020

Allocation Factor	Test Year 2020 Allocations to SWEPCO	SWEPCO Percent	
		Allocated \$	Allocation Units
05 Number Of CIS Customers Mail	\$ 753,891	12.1%	10.9%
06 Number Of Commercial Customers	\$ 94,211	7.7%	10.3%
08 Number Of Electric Retail Cust	\$ 16,871,937	10.9%	9.9%
09 Number Of Employees	\$ 5,476,102	13.3%	13.3%
11 Number Of GL Transactions	\$ 1,364,014	13.6%	12.5%
16 Number Of Phone Center Calls	\$ 3,409,288	17.0%	15.7%
17 Number Of Purchase Orders	\$ 4,392,904	15.4%	15.7%
20 Number Of Remittance Items	\$ 258,748	10.1%	10.1%
26 Number Of Stores Transactions	\$ 849,540	13.8%	11.3%
27 Number Of Telephones	\$ 325,964	7.9%	8.1%
28 Number Of Trans Pole Miles	\$ 2,563,547	13.8%	11.2%
31 Number Of Vehicles	\$ 1,007,826	23.6%	12.1%
32 Number Of Vendor Invoice Pay	\$ (173,803)	10.4%	10.5%
33 Number Of Workstations	\$ 7,756,597	11.5%	11.4%
37 AEPSC Past 3 Months Total Bill	\$ 86,156	5.0%	10.2%
39 100% to One Company	\$ 34,763,779		
40 Equal Share Ratio	\$ 74,426	4.9%	6.0%
44 Level Of Const-Distribution	\$ 673,117	7.0%	7.3%
45 Level Of Const-Production	\$ 2,523,858	17.6%	17.3%
46 Level Of Const-Transmission	\$ 11,856,941	7.0%	5.7%
48 MW Generating Capability	\$ 14,780,998	23.6%	22.2%
49 MWH Generation	\$ 2,842,980	18.9%	21.4%
51 Past 3 Mo MMBTU'S Burned (Tot)	\$ 2,121,097	29.0%	27.0%
52 Past 3 Mo MMBTU Burned (Coal)	\$ 175,568	2.7%	22.8%
53 Past 3 Mo MMBTU (Gas)	\$ 214,434	25.4%	25.0%
55 Past 3 MMBTU Burned (Solid)	\$ 173,920	28.7%	27.5%
57 Tons Of Fuel Acquired	\$ 1,173,990	30.9%	32.8%
58 Total Assets	\$ 30,260,420	8.9%	10.5%
60 AEPSC Bill Less Indir And Int	\$ 4,868,539	10.4%	10.4%
61 Total Fixed Assets	\$ 5,835,750	14.2%	12.4%
63 Total Gross Utility Plant	\$ 11,242,658	12.2%	12.0%
64 Member/Peak Load	\$ 3,646,081	21.2%	18.0%
67 Number Of Banking Transactions	\$ 109,793	11.7%	12.0%
70 Number Of Nonelectric OAR Invoices	\$ 46,083	4.5%	5.7%
77 Power Transactn To All Markets	\$ 3,306	12.3%	5.8%
Total AEPSC Charges to SWEPCO	\$ 172,424,658		

Source: Company information; Baryenbruch & Company, LLC, analysis

Exhibit 12

Southwestern Electric Power Company  
Assessment of the Cost Causation Relationship of AEPSC Allocation Factors

AEPSC Group/Function	Primary Allocation Factors																											
	05 Number of CIS Customers Mail	06 Number of Commercial Customers	08 Number of Retail Electric	09 Number of Employees	11 Number of GL Transactions	16 Number of Phone Center Calls	17 Number of Purchase Orders	20 Number of Remittance Items	26 Number of Stores Transactions	27 Number of Telephones	28 Number of Transmission Pole Miles	31 Number of Vehicles	33 Number of Workstations	37 AEPSC Past 3 Month Total Bill	39 Direct Charge	45 Level of Construction - Production	46 Level of Construction -	48 MW Generating Capability	49 MWh Generation	51 Past 3 Mo MMBTU's Burned (Tot)	55 Past 3 MMBTU Burned (Solid)	57 Tons of Fuel Acquired	58 Total Assets	60 AEPSC Bill Less Indirect & Interest	61 Total Fixed Assets	63 Total Gross Utility Plant	64 Total Peak Load	67 Number of Banking Transactions
Chief Administrative Officer Administration																							N					
Chief Executive Officer Administration																							N	N	N			
Chief Financial Officer Administration					O									O	D			N					N		O			
Controls and Field Services											O				D			O					N					
Corporate Accounting				O	O										D					O			N				O	
Corporate Communications			O																				N					
Corporate Planning & Budgeting															D					N			N					
Corporate Safety & Health				O																			N					
Customer & Distribution Services	O	O	N		O										D								N					
Energy Supply																							N					
Environmental & Safety															D			N					N					
External Affairs Admin											O									N			N		N			
Federal Affairs																							N					
Fossil & Hydro																												
Generation															D	O	O	O	O		O					N		
Grid Development											O				D			O					N	N				
Human Resources				O											D								N					
Information Technology		N	N	O		O	N		O		N	N	O	N	D	O	O	N	N	N	N	N	N	N	N	N	N	N
Internal Audit															D								N					
Investor Relations																							N					
Legal				N											D								N					
Physical & Cyber Security				O									O		D								N			N		
Real Estate & Workplace Services			N	N		N	N								D		N	N	N				N		N			
Regulated Commercial Operations															D			O	O			O						O
Regulatory Services											N												N					
Risk																							N					
Supply Chain & Fleet Operations			O			O		O							D		N	N					N			O	O	
Telecommunications									O						D			O					N		N			
Transmission Administration										O					D			O					N					
Treasury								O						N	D							N	N					N
Utility Operations		O	N												D			O				N	N					

Source: AEPSC data; Baryenbruch & Company, LLC, analysis

Exhibit 13

**SWEPCO Company**  
**Assessment of the Prevalence of AEP Active Allocation Factors**  
**Among Other Service Companies**

Active Allocation Factor/Category	Same/Related Factor Utilized by Comparison Group Service Companies
<u>Direct Charge</u>	
39 Direct 100% to One Company	Yes
<u>Assets</u>	
28 Number of Transmission Pole Miles	Yes
48 MW Generating Capability	Yes
49 MWHs Generated	Yes
58 Total Assets	Yes
61 Total Fixed Assets	Yes
63 Total Gross Utility Plant (Including CWIP)	Yes
64 Total Peak Load	Yes
65 Hydro MW Generating Capability	Yes
<u>Customers/Unit Sales</u>	
06 Number of Commercial Customers	Yes
08 Number of Electric Retail Customers	Yes
13 Number of Industrial Customers	Yes
<u>Employees</u>	
09 Number of Employees	Yes
<u>Expenditures</u>	
37 AEPSC Past 3 Months Total Bill Dollars	Yes
44 Level of Construction – Distribution	Yes
45 Level of Construction - Production	Yes
46 Level of Construction – Transmission	Yes
60 Total AEPSC Bill Dollars Less Interest and/or Income Taxes and/or Other Indirect Costs	Yes
<u>Fuel</u>	
51 Past 3 Mo. MMBTU's Burned (All Fuel Types)	No
52 Past 3 Mo. MMBTU's Burned (Coal Only)	Yes
53 Past 3 Mo. MMBTU's Burned (Gas Type Only)	Yes
55 Past 3 Mo. MMBTU's Burned (Solid Fuels Only)	Yes
57 Tons of Fuel Acquired	Yes
<u>Unit Usage</u>	
05 Number of CIS Customer Mailings	Yes
11 Number of General Transactions Ledger(GL)	Yes
16 Number of Phone Center Calls	Yes
17 Number of Purchase Orders Written	Yes
20 Number of Remittance Items	Yes
26 Number of Stores Transactions	Yes
27 Number of Telephones	Yes
31 Number of Vehicles	Yes
32 Number of Vendor Invoice Payments	Yes
33 Number of Workstations	Yes
67 Number of Banking Transactions	Yes
70 Number of Non- Electric OAR Invoices	Yes
77 Power Transactions to All Markets	Yes
<u>Other</u>	
40 Equal Share Ratio	Yes

Source: Cost Allocation Manual; 2019 FERC Form 60; Baryenbruch & Company, LLC, analysis

## **X – Provision of Services at the Lower of Cost or Market**

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### **Comparison Methodology**

AEPSC billed SWEPCO a total of approximately \$172.4 million during Test Year 2020. A substantial portion of these billings have been market-tested by Baryenbruch & Company, LLC, by comparing AEPSC's cost per hour for its services to those of outside service providers to whom those services could be outsourced. The following outside providers were selected for comparison:

- Attorneys – legal and corporate secretary services
- Management Consultants – executive management, external affairs, human resources, communications services
- Certified Public Accountants – accounting, tax, finance, treasury, internal audit, and rates and regulatory services
- Information Technology Consultants – information technology services
- Professional Engineers – engineering and operations-related services

### **AEPSC Hourly Rates**

This study assigns AEPSC's charges to one of the five outside provider categories listed above based on the specific nature of the service provided to SWEPCO. For instance, charges from AEPSC's Internal Audit Department were assigned to the certified public accountant cost pool.

The following adjustments were made to ensure that AEPSC-related cost pools reflect the costs recovered by outside providers in their hourly billing rates.

- Travel Expenses – Client-related travel expenses are not recovered by outside service providers through their hourly billing rates. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, these charges were removed from the AEPSC hourly rate calculation.
- Outside Services – These expenses are not associated with the cost of AEPSC personnel performing services for SWEPCO (outside firms perform the work under AEPSC direction). Charges from outside professional firms to perform certain corporate-wide services (e.g., legal, financial audit, actuarial) represent services that have, in effect, already been outsourced by AEPSC. Thus, these charges are also removed from the AEPSC hourly rate calculation.
- Other Non-Service Expenses – These are various AEPSC-incurred fees and expenses for which SWEPCO is assigned its appropriate share. Examples of these items include stock material purchases, inventory withdrawals and sales and use taxes. They are not related to the performance of services by AEPSC personnel for SWEPCO. An outside provider would not be expected to recover these costs in their hourly billing rates. Here too, these charges are excluded from the AEPSC hourly rate calculation.
- Enterprise IT Expenses – AEPSC arranges for enterprise-wide licenses for software and hardware. In doing so, AEPSC lowers the cost of such software through economies of scale. These savings are passed on to SWEPCO and affiliates who use enterprise business applications and the other components of the enterprise IT infrastructure. Outside providers would expect to recover enterprise software and hardware expenses over and above their hourly rates. For instance, an outside provider that would take over support of AEP's financial applications would not try to recover in its hourly billing rates the annual license fees paid to the software vendor. Rather, a separate charge would be

## X – Provision of Services at the Lower of Cost or Market

established for these costs. As a result, these charges are excluded from the AEPSC hourly rate calculation.

- Non-Professional Services Departments – A number of AEPSC departments provide services that would not be outsourced to the five previously mentioned outside service providers. The expenses of such departments in the following AEPSC groups have been removed from the AEPSC hourly rate calculations:
  - Customer Operations – Call center services are often delivered by non-degree personnel. Also, information on the cost of outside call center service providers is proprietary and not publicly available for benchmarking purposes.
  - Security and Aviation – Two aviation-related departments are excluded because they provide transportation services. Outside service providers do not recover travel expenses by outside service providers in their hourly rates for professional services.
  - Supply Chain and Fleet – Some AEPSC departments provide warehouse and fleet services that are delivered by non-professional level personnel.

Exhibit 14 (pages 47-48) provides an analysis of these adjustments from AEPSC's Test Year 2020 service-related charges to SWEPCO. The net testable AEPSC charges of approximately \$112.9 million were subjected to a lower of cost or market pricing test.

Based on the nature of the services provided by each AEPSC Department, their testable charges were assigned to the five outside provider categories as shown in Exhibit 15 (page 49). A few cost centers provide general support for the AEPSC organization and do not provide services directly to SWEPCO. For purposes of this study, these departments are designated as "overhead," and their expenses are later allocated to the five outside provider cost pools. Test Year 2020 AEPSC hours, which are derived from AEPSC labor charged to SWEPCO, are compiled by outside provider category in Exhibit 16 (page 51). The categorization of hours was also based on the same department-by-department assignment used for AEPSC dollar charges.

Based on the cost and hour pools, AEPSC Test Year 2020 hourly rates are developed for each of the five provider categories. Exhibit 17 (page 52) shows the calculations involved in creating hourly rates that are compared to the rates of outside providers.



Exhibit 14  
Page 1 of 2

**Southwestern Electric Power Company  
Calculation of Test Year 2020 Net Testable AEPSC Charges**

Total Test Year 2020 Charges From AEPSC	\$ 172,424,658	\$ 172,424,658
Less: <u>Cost Components Eliminated from Market Test</u>		
<u>Travel Expenses</u>		
411 Vehicle Distribution - Other	\$ 1,655	
413 Fleet Clearing	\$ 148,493	
510 Busin Exp 100% Deduct Gen	\$ 1,915,084	
515 Busin Exp 100% Deduct-Reloc	\$ 174,064	
520 Business Exp Part Deduct Gen	\$ 520,055	
530 Business Exp Non Deduct Gen	\$ 15,132	
738 SS Fleet Prod/Svcs	\$ 750,911	
757 Aviation Services	\$ 1,456,270	
768 Trans HQs-Deptl Ovrhd	\$ 320,827	
995 Fleet Vehicles Licenses/Titles	\$ 1,635	
Total Travel Expenses	\$ 5,304,126	\$ (5,304,126)
<u>Outside Services</u>		
210 Contract Labor (General)	\$ 11,364,217	
260 Professional Services	\$ 11,311,856	
262 Legal Services And Expenses	\$ 108,477	
264 Outside Services Tax	\$ 34,897	
265 Outside Svcs-Audit Fees Financ	\$ 36,505	
266 Outside Services Engineering	\$ 206,726	
267 OutsideSvcs-BankFees-Cash Mgmt	\$ 125,518	
268 Outside Services Software	\$ 275,881	
269 Outside Serv Projct Developmnt	\$ 1,197	
284 Outside Services - Nonlabor	\$ 21,313	
285 Temporary Staffing	\$ 1,084,449	
290 Other Outside Services General	\$ 4,592,964	
293 Sales/Use Tax-Outside Services	\$ 814,865	
9AA Accounts Payable Accruals/Reversals (net)	\$ 442,736	
Total Outside Services	\$ 30,421,601	\$ (30,421,601)
<u>Enterprise IT Expenses</u>		
270 Software - Acquisition	\$ 7,260,367	
271 Software - Maintenance	\$ 2,772,542	
272 OS - Software Modify - Canned	\$ 456	
273 Cloud Subscription Services	\$ 719,544	
291 IT Hardware Maintenance	\$ 44,324	
Total Enterprise IT Expenses	\$ 10,797,234	\$ (10,797,234)

Exhibit 14  
Page 2 of 2

**Southwestern Electric Power Company  
Calculation of Test Year 2020 Net Testable AEPSC Charges**

<u>Less: Cost Components Eliminated from Market Test (cont.)</u>			
<u>Other Non-Service Expenses</u>			
023	AFUDC Debt	\$	(34,882)
310	Material & Supplies From Stock	\$	15,712
320	Stores Loading	\$	(24,951)
359	Rentals Less Than 12 Months	\$	4,203
360	Vehicle Fuel Expense	\$	39
390	Material Direct Purchase	\$	2,166,925
391	Material - Outside Contractor	\$	27,197
392	Freight Charges	\$	18,425
393	Sales/Use Tax - M & S	\$	14,158
394	Exempt Minor Material	\$	2,468
396	Material w/Fixed % Stores Load	\$	954,665
620	Overheads	\$	755
740	RSO Tool Charge Allocation	\$	8,102
942	Land Rights	\$	67
943	ROW Damage Settlement Payments	\$	2,165
960	Advertising	\$	228
983	Coal Lab Services	\$	23,677
994	Marketing Promotion Expenses	\$	5,430
	Total Non-Services Expenses	\$	3,184,382
		\$	(3,184,382)
<u>Less: AEPSC Departments Eliminated from Market Test</u>			
	Customer & Distribution Services	\$	8,190,491
	Information Technology	\$	161,796
	Legal	\$	152,555
	Supply Chain & Fleet	\$	12,273
	Total Eliminated Departments	\$	8,517,114
		\$	(8,517,114)
<b>Net Testable AEPSC Test Year 2020 Billings</b>			<b>\$ 114,200,201</b>

Source: AEPSC information; Baryenbruch & Company, LLC, analysis

**Southwestern Electric Power Company**  
**Test Year 2020 Market Testable AEPSC Charges to SWEPCO by Outside Service Provider Category**

Service Category	Outside Provider Category					
	Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	Overhead
Chief Administrative Officer Admin	\$ -	\$ 139,637	\$ -	\$ -	\$ -	\$ -
Chief Executive Officer Admin	\$ -	\$ 929,942	\$ -	\$ -	\$ -	\$ -
Chief Financial Officer Admin	\$ -	\$ 201,866	\$ 100,947	\$ -	\$ -	\$ (3,721,289)
Controls and Field Services	\$ -	\$ -	\$ -	\$ -	\$ 4,989,007	\$ -
Corporate Accounting	\$ -	\$ 1,396,199	\$ 3,095,471	\$ -	\$ -	\$ -
Corporate Communications	\$ -	\$ 912,009	\$ -	\$ -	\$ -	\$ -
Corporate Planning & Budgeting	\$ -	\$ 1,659,678	\$ 782,558	\$ -	\$ -	\$ -
Corporate Safety & Health	\$ -	\$ -	\$ -	\$ -	\$ 776,201	\$ -
Customer & Dist Services	\$ -	\$ 1,929,136	\$ 886,104	\$ -	\$ 1,543,621	\$ -
Energy Supply	\$ -	\$ 428	\$ -	\$ -	\$ 11,009	\$ -
Environmental & Safety	\$ -	\$ 917,026	\$ -	\$ -	\$ 4,404,052	\$ -
External Affairs Admin	\$ 1,252,707	\$ 156,726	\$ -	\$ -	\$ 121,173	\$ -
Federal Affairs	\$ 402,657	\$ -	\$ -	\$ -	\$ -	\$ -
Fossil & Hydro	\$ -	\$ 532,800	\$ -	\$ -	\$ 7,461,052	\$ -
Generation	\$ -	\$ -	\$ -	\$ -	\$ 133,919	\$ -
Generation Admin	\$ -	\$ 264,287	\$ -	\$ -	\$ (2,529)	\$ -
Generation Business Services	\$ -	\$ 444,688	\$ 111,597	\$ -	\$ 412,072	\$ -
Generation Engineering Services	\$ -	\$ 1,503,617	\$ -	\$ -	\$ 8,234,939	\$ -
Generation Project & Construction Serv	\$ -	\$ -	\$ -	\$ -	\$ 3,806,752	\$ -
Grid Development	\$ -	\$ -	\$ -	\$ -	\$ 18,434,733	\$ -
Human Resources	\$ -	\$ 2,222,439	\$ 106,733	\$ 166,413	\$ -	\$ -
Information Technology	\$ -	\$ -	\$ -	\$ 11,046,917	\$ -	\$ -
Internal Audit	\$ -	\$ 952,248	\$ 138,391	\$ 9	\$ 336,859	\$ -
Investor Relations	\$ -	\$ 103,417	\$ -	\$ -	\$ -	\$ -
Legal	\$ 2,918,045	\$ -	\$ -	\$ -	\$ -	\$ -
Physical & Cyber Security	\$ 148,408	\$ 48,087	\$ -	\$ 1,064,909	\$ -	\$ 446,430
Real Estate & Workplace Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,009,714
Regulated Commercial Operations	\$ -	\$ 2,514,714	\$ 99,892	\$ 399,428	\$ 3,529,714	\$ -
Regulatory Services	\$ 539,074	\$ 1,734,077	\$ 1,206,582	\$ -	\$ -	\$ -
Risk	\$ -	\$ 706,607	\$ -	\$ -	\$ -	\$ -
Supply Chain & Fleet	\$ -	\$ 587,162	\$ 4,821,879	\$ -	\$ 54,298	\$ -
Telecommunications	\$ -	\$ -	\$ -	\$ 3,246,541	\$ 87,130	\$ -
Transmission Admin	\$ -	\$ 669,220	\$ -	\$ -	\$ 2,058,785	\$ -
Treasury	\$ -	\$ 2,491,953	\$ 73,684	\$ -	\$ -	\$ -
Utility Operations	\$ -	\$ 261,443	\$ -	\$ -	\$ 4,184,207	\$ -
Total Cost Pool	\$ 5,260,892	\$ 23,279,406	\$ 11,423,837	\$ 15,924,217	\$ 60,576,993	\$ (2,265,144)
						\$ 114,200,201

Source AEPSC information, Baryenbruch &amp; Company, LLC, analysis

**Southwestern Electric Power Company**  
**Test Year 2020 Market Testable AEPSC Hours Charged to SWEPCO by Outside Service Provider Category**

Service Category	Outside Provider Category				
	Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer
Chief Administrative Officer Admin	-	414	-	-	-
Chief Executive Officer Admin	-	532	-	-	-
Chief Financial Officer Admin	-	365	-	-	-
Controls and Field Services	-	-	-	-	49,626
Corporate Accounting	-	7,813	27,845	-	-
Corporate Communications	-	6,858	-	-	-
Corporate Planning & Budgeting	-	10,426	5,639	-	-
Corporate Safety & Health	-	-	-	-	5,018
Customer & Dist Services	-	12,947	10,312	-	13,761
Energy Supply	-	-	-	-	101
Environmental & Safety	-	1,453	-	-	42,421
External Affairs Admin	6,713	177	-	-	621
Federal Affairs	1,357	-	-	-	-
Fossil & Hydro	-	1,874	-	-	65,030
Generation	-	-	-	-	248
Generation Admin	-	1,069	-	-	(14)
Generation Business Services	-	3,090	1,107	-	5,144
Generation Engineering Services	-	2,948	-	-	73,390
Generation Project & Construction Services	-	-	-	-	32,374
Grid Development	-	-	-	-	177,993
Human Resources	-	20,432	1,231	1,333	-
Information Technology	-	-	-	83,156	-
Internal Audit	-	5,827	1,015	-	2,255
Investor Relations	-	590	-	-	-
Legal	13,959	-	-	-	-
Physical & Cyber Security	1,038	-	-	7,618	-
Regulated Commercial Operations	-	16,168	553	3,046	29,427
Regulatory Services	2,375	11,015	8,696	-	-
Risk	-	3,652	-	-	-
Supply Chain & Fleet	-	4,939	40,280	-	656
Telecommunications	-	-	-	27,251	877
Transmission Admin	-	1,278	-	-	18,141
Treasury	-	12,647	574	-	-
Utility Operations	-	1,305	-	-	35,731
Total Cost Pool	25,442	127,818	97,252	122,404	552,798
					<b>Total</b>
					925,715

Source: AEPSC information; Baryenbruch & Company, LLC, analysis

**Southwestern Electric Power Company  
Test Year 2020 AEPSC Hourly Rate Calculation**

<b>AEPSC Hourly Rates</b>						
	<b>Attorney</b>	<b>Mgmt Consultant</b>	<b>Certified Public Acct</b>	<b>IT Consultant</b>	<b>Professional Engineer</b>	<b>Total</b>
Service-Related Charges	\$ 5,260,892	\$ 23,279,406	\$ 11,423,837	\$ 15,924,217	\$ 60,576,993	\$ 116,465,345
Overhead Expenses (Note A)	\$ (102,320)	\$ (452,763)	\$ (222,183)	\$ (309,711)	\$ (1,178,167)	\$ (2,265,144)
Cost Pool Total	\$ 5,158,572	\$ 22,826,643	\$ 11,201,654	\$ 15,614,505	\$ 59,398,826	\$ 114,200,201
Hours	25,442	127,818	97,252	122,404	552,798	925,715
<b>Average AEPSC Hourly Rate</b>	<b>\$ 203</b>	<b>\$ 179</b>	<b>\$ 115</b>	<b>\$ 128</b>	<b>\$ 107</b>	

Note A These expenses are assigned to the outside provider categories prorata based on the "direct" expenses, as calculated below.

	<b>Attorney</b>	<b>Mgmt Consultant</b>	<b>Certified Public Acct</b>	<b>IT Consultant</b>	<b>Professional Engineer</b>	<b>Total</b>
Service-Related Charges (above)	\$ 5,260,892	\$ 23,279,406	\$ 11,423,837	\$ 15,924,217	\$ 60,576,993	\$ 116,465,345
Percent of Cost Pool Total	4.5%	20.0%	9.8%	13.7%	52.0%	100.0%
Total Overhead Expenses	\$ (2,265,144)	\$ (2,265,144)	\$ (2,265,144)	\$ (2,265,144)	\$ (2,265,144)	
Allocation of Overhead Expenses	\$ (102,320)	\$ (452,763)	\$ (222,183)	\$ (309,711)	\$ (1,178,167)	\$ (2,265,144)

Source: AEPSC information; Baryenbruch & Company, LLC, analysis

## X – Provision of Services at the Lower of Cost or Market

### Outside Service Provider Hourly Rates

The next step in the cost comparison is to calculate the average billing rates for each type of outside service provider. The source of this information and the determination of the average rates are described below.

It should be noted that professionals working for three of the five outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among US certified public accounting firms, only more experienced staff are predominantly CPAs, as shown in the table below. Some AEPSC employees also have professional licenses. Thus, it is valid to compare the AEPSC hourly rates to those of the outside professional service providers included in this study.

Position	% Who Are CPAs
Partners/Owners	98%
Directors (over 10 years experience)	87%
Managers (6-10 years experience)	79%
Sr Associates (4-5 years experience)	50%
Associates (1-3 years experience)	22%
New Professionals	10%

Source: AICPA's National PCPS/TSCPA Management  
of an Accounting Practice Survey (2010)

### Attorneys

An estimate of Texas attorney rates was developed from a 2019 billing rate survey from National Law Journal's Survey of Law Firm Economics Report. As shown in Exhibit 18 (page 54), regional billing rate data from this survey has been adjusted for cost-of-living differences between each region and Longview, Texas, which is in SWEPCO's service territory. The National Law Review survey data is as of January 1, 2019. The calculated average rate was escalated to September 30, 2019—the midpoint of Test Year 2020.

### Management Consultants

The cost per hour for management consultants was developed from a survey performed by Rodenhauer & Company LLC, a research company that monitors the consulting industry. The survey includes rates that were in effect during 2019/2020 for firms throughout the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison.

As shown in Exhibit 19 (page 55) an average hourly rate is calculated by applying a percentage weighting to the average rates by consultant position. The weighting is based upon the percent of time that is typically applied to a consulting assignment, based on Baryenbruch & Company, LLC's, experience.

## **X – Provision of Services at the Lower of Cost or Market**

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### **Certified Public Accountants**

The average hourly rate for Texas CPAs was developed from a 2018 survey performed by the American Institute of Certified Public Accountants (AICPA). The Texas version of this survey was used to develop hourly rates for member firms in Texas.

As shown in Exhibit 20 (page 56), a weighted average hourly rate was developed based on a set of accountant positions and a percent of time that is typically applied to an accounting assignment, based on Baryenbruch & Company, LLC's, experience. Since the survey includes hourly rates that were in effect during 2017, the calculated average rate was escalated to September 30, 2019—the midpoint of Test Year 2020.

### **Information Technology Consultants**

The average hourly rate for IT consultants and contractors was developed from a survey performed by Rodenhauser & Company LLC, and from information provided by AEPSC on hourly rates it actually paid to IT consultants and contractors during 2019/2020. As shown in Exhibit 21 (page 57), that data was compiled, and a weighted average was calculated using on a percent of time that is typically applied to an IT consulting assignment, based on Baryenbruch & Company, LLC's, experience.

### **Professional Engineers**

Hourly rate information for professional engineering firms was developed from Baryenbruch & Company, LLC, data. As shown in Exhibit 22 (page 58), an average rate was developed for each engineering position for six engineering firms. Based on AEPSC's number of incumbents in each engineer position, a weighting percentage is applied to the average hourly rates of outside engineering firms to arrive at a weighted average hourly rate for 2019/2020.

Exhibit 18  
Page 1 of 3

**Southwestern Electric Power Company  
2019/2020 Billing Rates for Attorneys**

Average Hourly Billing Rates as of January 1, 2019									
Region	2019 Avg Billing Rates (Note A)		Weighted Avg Rate Calculation			Cost of Living (COL) Adjustment			(X x Y)  Adjusted Rate
	Partner	Associate	Partner	Associate	Weighted Average	COL Indices (Note B)		(Y)  COL Adjustment	
						Region	SWEPCO - Long View, Tx		
New England	\$ 432	\$ 259	\$ 108	\$ 194	\$ 302	123.5	96.6	78.2%	\$ 236
Mid-Atlantic	\$ 575	\$ 424	\$ 144	\$ 318	\$ 462	119.9	96.6	80.6%	\$ 372
South Atlantic	\$ 510	\$ 311	\$ 128	\$ 233	\$ 361	97.6	96.6	99.0%	\$ 357
West South Central	\$ 448	\$ 301	\$ 112	\$ 226	\$ 338	91.8	96.6	105.2%	\$ 355
East North Central	\$ 493	\$ 354	\$ 123	\$ 266	\$ 389	93.5	96.6	103.4%	\$ 402
West North Central	\$ 294	\$ 207	\$ 74	\$ 155	\$ 229	94.7	96.6	102.1%	\$ 234
Mountain	\$ 500	\$ 310	\$ 125	\$ 233	\$ 358	97.5	96.6	99.1%	\$ 354
Pacific	\$ 345	\$ 257	\$ 86	\$ 193	\$ 279	118.9	96.6	81.3%	\$ 227
Overall Average Hourly Billing Rate									\$ 317
Escalation to Test Period 2020 Midpoint (Sep 30, 2019)									
CPI at December 31, 2018									251.2
CPI at September 30, 2019									256.8
Inflation/Escalation (Note C)									2.2%
Average Hourly Billing Rate For Attorneys At September 30, 2019									\$ 324

Note A: 2019 Survey of Law Firm Economics Report, National Law Journal

Note B: Cost of Living Index, Source Council for Community and Economic Research

Note C: U.S. Bureau of Labor Statistics (<http://data.bls.gov/cgi-bin/surveymost>)



Exhibit 19

**Southwestern Electric Power Company  
2019/2020 Billing Rates for Management Consultants**

Survey billing rates in effect in 2019/2020 (Note A)					
A Calculation of Average Hourly Billing Rate by Consultant Position					
Average	Average Hourly Rates (Note A)				
	Analyst Consultant	Associate	Sr. Assoc/ Manager	Principal	Partner
	\$ 227	\$ 273	\$ 334	\$ 515	\$ 641
B Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement					
Average Hourly Billing Rate (from above)	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
	\$ 227	\$ 273	\$ 334	\$ 515	\$ 641
Percent of Consulting Assignment	30%	30%	25%	10%	5%
	\$ 68	\$ 82	\$ 84	\$ 52	\$ 32
Weighted Average					\$ 317
Average Hourly Billing Rate for Management Consultants During 2019/2020					\$ 317

Note A: Source is Rodenhauser & Company LLC; Baryenbruch & Company, LLC, analysis

Exhibit 20

**Southwestern Electric Power Company  
2019/2020 Billing Rates for Certified Public Accountants**

Calculation of Average Hourly Billing Rate by Public Accounting Position				
Survey billing rates were those in effect in 2017 (Note A)				
Average Hourly Billing Rate by CPA Firm Position	Average Hourly Billing Rate (Note A)			
	Staff Accountant	Senior Accountant	Director/ Manager	Partner
	\$ 97	\$ 129	\$ 178	\$ 253
Percent of Accounting Assignment	30%	30%	20%	20%
	\$ 29	\$ 39	\$ 36	\$ 51
Escalation to Test Year 2020 Midpoint (Sep 30, 2019)				
CPI at December 31, 2017				246.5
CPI at Sep 30, 2019				256.8
Inflation/Escalation (Note B)				4.2%
Average Hourly Billing Rate for Certified Public Accountants at Sep 30, 2019				\$ 160

Note A: Source is AICPA's 2018 National PCPS/TSCPA Management of an Accounting Practice Survey  
(Texas edition)

Note B: Source is U.S. Bureau of Labor Statistics (<http://data.bls.gov/cgi-bin/surveymost>)

Exhibit 21

**Southwestern Electric Power Company  
2019/2020 Billing Rates for IT Consultants**

A. Calculation of Average Hourly Billing Rate by Information Technology Position Survey billing rates were those in effect in 2019/2020 (Note A)						
Average Hourly Billing Rate (Note A)						
Contractor Positions		Consultant Positions				
Contractor	Senior Contractor	Associate	Manager	Partner		
Average Hourly Billing Rate by IT Position Category	\$ 81	\$ 127	\$ 252	\$ 353	\$ 478	
Percent of IT Assignment	25%	25%	25%	15%	10%	Weighted Average
	\$ 20	\$ 32	\$ 63	\$ 53	\$ 48	\$ 216
Average Hourly Billing Rate For IT Professionals During 2019/2020						\$ 216

Note A: Source is AEPSC, ALM Intelligence, Texas Department of Information Resources: Not-To-Exceed Pricing Final and Baryenbruch & Company, LLC, analysis

Exhibit 21

**Southwestern Electric Power Company  
2019/2020 Billing Rates for Professional Engineers**

A. Calculation of Average 2019/2020 Hourly Rate by Engineer Position (Note A)

Firm	Average Hourly Billing Rates			
	Associate Engineer	Engineer	Senior Engineer	Principal Engineer
Firm #1	\$ 82	\$ 109	\$ 127	\$ 143
Firm #2	\$ 96	\$ 106	\$ 141	\$ 176
Firm #3	\$ 100	\$ 115	\$ 129	\$ 157
Firm #4	\$ 94	\$ 112	\$ 145	\$ 180
Firm #5	\$ 91	\$ 96	\$ 115	\$ 130
Firm #6	\$ 93	\$ 111	\$ 139	\$ 168
Average	\$ 92	\$ 108	\$ 133	\$ 159

B. Calculation of Overall Average Engineering Hourly Billing Rate

	Associate Engineer	Engineer	Senior Engineer	Principal Engineer	
Average Hourly Billing Rate (From Above)	\$ 92	\$ 108	\$ 133	\$ 159	
AEPSC Engineer Workforce Composition	19%	28%	31%	22%	
					Weighted Average
	\$ 18	\$ 30	\$ 41	\$ 35	\$ 124

Average Hourly Billing Rate For Professional Engineers During 2019/2020 \$ 124

Note A: Source is AEPSC; Baryenbruch & Company, LLC, analysis

## X – Provision of Services at the Lower of Cost or Market

### Comparison of Hourly Rates

As shown in the table below, AEPSC's costs per hour in Test Year 2020 are significantly lower than those of outside providers.

Service Provider	Cost Per Hour Difference		
	AEPSC	Outside Providers	Difference - AEPSC Greater(Less) Than Outside
Attorney	\$ 203	\$ 324	\$ (121)
Management Consultant	\$ 179	\$ 317	\$ (138)
Certified Public Accountant	\$ 115	\$ 160	\$ (45)
IT Consultant	\$ 128	\$ 216	\$ (88)
Professional Engineer	\$ 107	\$ 124	\$ (17)

Based on these cost-per-hour differentials, and the number of hours AEPSC billed SWEPCO during Test Year 2020, AEPSC's services would have cost \$45 million more if obtained from outside providers, as calculated below. This is almost 40% more than AEPSC's total charges to SWEPCO during Test Year 2020 (\$45,262,954/ \$114,200,201 = 39.6%).

Service Provider	Total Cost Difference		
	Hourly Rate Difference - AEPSC Greater(Less) Than Outside	AEPSC Hours Charged	Dollar Difference
Attorney	\$ (121)	25,442	\$ (3,078,516)
Management Consultant	\$ (138)	127,818	\$ (17,638,944)
Certified Public Accountant	\$ (45)	97,252	\$ (4,376,339)
IT Consultant	\$ (88)	122,404	\$ (10,771,592)
Professional Engineer	\$ (17)	552,798	\$ (9,397,563)
AEPSC Less Than Outside Providers			\$ (45,262,954)

As a final step in this lower of cost or market pricing analysis, the Test Year 2020 income statement of AEPSC was reviewed. It was found to have no net income. This provides further evidence that AEPSC provided services to SWEPCO at cost, which is below market as discussed above.

### EXECUTIVE SUMMARY OF BRIAN S. HEALY

Brian S. Healy is employed by American Electric Power Service Corporation (AEPSC) as the Managing Director of Human Resources for American Electric Power Company, Inc. (AEP) and its affiliates. AEPSC's Human Resources (HR) Department's primary responsibility is to attract, retain and support a diverse and qualified workforce to facilitate the multi-faceted work responsibilities required to provide electric service to AEP's customers. The HR Department is a strategic partner to all AEP affiliates, including Southwestern Electric Power Company (SWEPCO).

Mr. Healy describes the HR Department and how it is organized to provide HR services to SWEPCO and other AEP operating companies. In particular, he discusses the manner in which and the type of support the HR Department provides to SWEPCO. Mr. Healy asserts that HR employees located within a specific business unit – in this case SWEPCO – provide day-to-day HR support for a wide variety of local issues. HR employees located at a single geographic location focus on a particular area of expertise – such as Disability Management, Compensation, Benefits, Labor Relations and Talent Management.

Mr. Healy demonstrates that the HR Department's approach to providing services combines the economies of corporate scale with the customization and focus associated with a decentralized model. Ultimately, Mr. Healy confirms that there is no duplication of HR services within SWEPCO and that each HR service is specifically designed to meet employee needs and enhance SWEPCO's ability to attract, develop and retain the best qualified workforce to meet customers' needs.

For the adjusted Test Year, the HR Department charged SWEPCO \$2,327,137 for HR services. To demonstrate the reasonableness and necessity of these charges, Mr. Healy outlines the HR Department's budget performance, cost trends, and benchmark information.

Mr. Healy notes that the HR Department budget is developed annually and reviewed monthly, and year-end projections are revised as appropriate. In addition, HR Department spending is closely monitored through monthly variance and billing reports. Overall, HR Department budget, actual expenditures, and charges to SWEPCO have remained steady in recent years.

The HR Department periodically participates in human resources benchmarking studies. Mr. Healy details the results of one recent study performed by Gartner – a respected expert in the HR arena. The study focuses on a handful of basic metrics viewed as standard measures of relative performance for HR organizations: 1) number of full-time equivalent (FTE) employees supported by each HR staff FTE; 2) the dollar amount directly invested in the HR Department for each AEP FTE; and, 3) direct HR costs as a percent of revenue. In every instance, the study's results indicated that the HR Department is operating more effectively than the median range. This study demonstrates that the HR Department is providing the same high quality services as in the past with the same or fewer employees and at a lower cost.

Finally, Mr. Healy sets out numerous process improvements initiated and executed by the HR Department.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF  
SOUTHWESTERN ELECTRIC POWER COMPANY  
FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF  
BRIAN S. HEALY  
FOR  
SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020



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#### EXHIBITS

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
EXHIBIT BSH-1	HR Organization Chart Areas of Support View

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

3 A. My name is Brian S. Healy. I am employed by American Electric Power Service  
4 Corporation (AEPSC) as Managing Director – Total Rewards, Human Resources (HR)  
5 for American Electric Power Company, Inc. (AEP) and its affiliates. My business  
6 address is 1 Riverside Plaza, Columbus, Ohio 43215.

7 Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL  
8 BACKGROUND.

9 A. I joined AEP in 1995 as an HR generalist in the Michiana Region of AEP's Indiana  
10 Michigan Power Company subsidiary. In Michiana, I provided a broad range of HR  
11 support to employees and leaders in Distribution, Transmission, and Generation within  
12 the two-state region, advancing from HR Assistant to Senior HR Assistant during that  
13 five-year period. In 2000, I was promoted to the role of HR Business Management  
14 Consultant, reporting to the Senior Vice President of HR, where I assumed  
15 responsibility for the HR organization's financial planning, key project delivery, and  
16 establishment of a new shared services chargeback model and internal service level  
17 agreements. In 2004 I was promoted to Director - Shared Services Strategy, assuming  
18 leadership of all financial planning, chargeback accounting, service level agreements,  
19 and strategic project leadership for AEP's Shared Services Business Unit, including:  
20 HR, Information Technology, Supply Chain, Fleet Operations, Procurement, and  
21 Telecommunications. In 2010, I was named Director - Shared Services Business  
22 Services, where my responsibilities expanded to include further financial and business  
23 support functions, consolidating four departments and reducing from 41 business

1 support personnel to a streamlined team of 16 employees. In June of 2013, I returned  
2 to HR as Managing Director - Total Rewards, leading AEP's Compensation and  
3 Benefits functions, with expanded responsibility for Payroll and Integrated Disability  
4 management beginning in July of 2017.

5 I earned a Bachelor of Science degree in (Industrial Organizational) Psychology  
6 from John Carroll University in 1993 and an (Executive) Masters of Business  
7 Administration from the University of Notre Dame in 2000. I am a graduate of the  
8 University of Michigan Business School HR Executive Program, the AEP / Ohio State  
9 University Strategic Leadership Program, the Harvard Business School Leadership  
10 Best Practices Program, and the Leadership Columbus (Signature) Program.

11 Q. ARE YOU A MEMBER OF ANY HR-RELATED GROUPS OR ASSOCIATIONS?

12 A. Yes, I am a 27-year member of the Society for Human Resources Management  
13 (SHRM), with a SHRM Senior Certified Professional (SHRM-SCP) designation.

14 Q. WHAT EXHIBITS DO YOU SPONSOR IN THIS PROCEEDING?

15 A. I am sponsoring one exhibit, an organization chart, as listed in the table of contents of  
16 my testimony.

17 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

18 A. My testimony has several purposes:

- 19 1. to describe the AEPSC HR Department and how it is organized to provide HR  
20 services to Southwestern Electric Power Company (SWEPCO or the Company) and  
21 other AEP operating companies;
- 22 2. to discuss the specific types of services provided to SWEPCO by the HR  
23 Department and how they are reasonable and necessary to support SWEPCO.
- 24 3. to demonstrate that the costs billed to SWEPCO for HR services are reasonable and  
25 necessary; and

- 1 4. to describe several major initiatives undertaken by HR to advance the  
2 organization's ability to efficiently deliver programs and services that attract,  
3 retain, and motivate a workforce with the requisite skills and experience to serve  
4 SWEPCO and its customers.

5  
6 II. ORGANIZATION AND SERVICES OF THE HR DEPARTMENT

7 Q. IN GENERAL, WHAT IS THE MISSION OF HR?

8 A. HR's primary responsibility is to attract, retain, and support a diverse and qualified  
9 workforce to facilitate the multi-faceted work responsibilities required to provide utility  
10 service to our customers. The HR Department is a strategic partner with all AEP  
11 affiliates, including SWEPCO. To ensure that we fully support SWEPCO in its mission  
12 to provide safe, reliable and efficient utility service, HR staff maintains a day-to-day  
13 working relationship with management and employees of SWEPCO.

14 Q. WHAT ARE THE OVERALL PERFORMANCE GOALS OF THE  
15 HR ORGANIZATION?

16 A. HR, in partnership with business unit and operational leadership, provides services to:  
17 1. Give a broad base of HR advice and knowledge to leaders and employees in  
18 everyday situations;  
19 2. Achieve operational excellence in HR administration and compliance;  
20 3. Recruit, hire, and retain employees so that we have a diverse and highly capable  
21 workforce to meet our customers' needs;  
22 4. Provide resources to manage performance and develop our people so that strong  
23 leader and employee talent is available at all levels of the organization;  
24 5. Encourage a high-performance culture through a balanced focus on both people and  
25 results;  
26 6. Provide HR management, support, and training that results in leadership teams and  
27 ad hoc project teams that operate to their fullest potential; and

1           7. Provide day-to-day support to enable employees and leaders to focus on providing  
2           safe, reliable electricity.

3   Q.    HOW DO THESE BROAD OBJECTIVES TRANSLATE INTO SUPPORT FOR  
4           SWEPCO?

5   A.    All AEP Operating Companies have input into HR's priorities and the HR support and  
6           services that are delivered. HR Business Partners (primarily the HR Region Manager)  
7           contribute to the ongoing strategic planning and prioritize HR efforts in support of  
8           SWEPCO through regular participation in all staff meetings of the President of  
9           SWEPCO, and in similar leadership forums convened by Business Units that serve  
10          SWEPCO. This intimate involvement and understanding of the business needs of  
11          SWEPCO ensures that AEP HR policies, programs, and activities are aligned to  
12          efficiently and safely serve SWEPCO customers.

13   Q.    HOW DOES HR FIT INTO THE OVERALL AEPSC ORGANIZATION?

14   A.    HR, which includes AEPSC's Labor Relations Department, is part of the AEPSC Chief  
15          Administrative Officer organization. The Chief Administrative Officer reports directly  
16          to AEP's Chief Executive Officer.

17   Q.    HOW DOES HR PROVIDE SUPPORT TO SWEPCO?

18   A.    There are two primary ways that HR supports SWEPCO:

- 19          • HR employees geographically co-located *with the business unit* provide day-to-day  
20            HR support for a wide variety of local issues. HR employees are located in  
21            Shreveport, Louisiana, to provide support across the SWEPCO footprint.
- 22          • HR employees located *at a single geographic location, in Columbus, Ohio*, focus  
23            on a particular area of expertise – such as Disability Management, Compensation,  
24            Benefits, Labor Relations, and Talent Management.

1 By providing HR services using this approach, we are able to combine the economies  
2 of corporate scale with the customization and focus associated with a decentralized  
3 model.

4 All HR employees providing services to the AEP Operating Companies work  
5 for AEPSC regardless of location. We staff in this manner because all of our  
6 HR employees routinely provide services for more than one AEP affiliate.

7 Q. PLEASE DISCUSS THE ROLE OF HR EMPLOYEES LOCATED IN LOUISIANA  
8 WHO PROVIDE DAY-TO-DAY SUPPORT TO SWEPCO.

9 A. We have an HR Region Manager located in Shreveport, Louisiana, who has  
10 responsibility for the SWEPCO footprint. The HR Region Manager leads a staff of  
11 four HR Business Partners and one Senior Administrative Assistant who serve our  
12 SWEPCO business units. A majority of their time is spent supporting employees and  
13 management of SWEPCO and AEPSC employees located in the SWEPCO service  
14 territory. Examples of their work include:

- 15 • Facilitating and coordinating the filling of positions through hiring external and  
16 internal candidates;
- 17 • Consulting with management to determine workforce-planning needs;
- 18 • Working with managers and all employees to review and make recommendations  
19 related to employee performance and other employee and labor relations issues;
- 20 • Conducting certain benefits education and counseling (*e.g.*, sessions related to  
21 benefit plan changes, severance, counseling, etc.);
- 22 • Establishing and implementing initiatives designed to improve individual or team  
23 performance, such as performance coaching or leadership development; and
- 24 • Partnering with business unit leadership to implement and provide support for  
25 business unit goals and objectives.

1 Q. PLEASE EXPLAIN HOW HR EMPLOYEES LOCATED CENTRALLY  
2 EFFICIENTLY PROVIDE SERVICES IN SPECIFIC AREAS OF EXPERTISE  
3 SUCH AS HR OPERATIONS, COMPENSATION, OR BENEFITS.

4 A. A good example to illustrate how centralized services work is our Integrated Disability  
5 & Recovery Center (IDRC). The concept of centralized management of short- and  
6 long-term disability programs is considered a “best practice” in the HR arena. This  
7 center actively manages sick leave, worker’s compensation, and long-term disability,  
8 leveraging comprehensive care management and return-to-work initiatives to promote  
9 employee health, recovery, and rapid return to full productivity. By providing these  
10 services in a centralized fashion for AEP’s entire employee base, HR can manage  
11 disability costs in a streamlined manner that leverages economies of scale, thus  
12 providing more efficient HR service delivery. Centralized centers increase service  
13 quality through a level of focused expertise and process refinement that could not be  
14 replicated on a decentralized basis in a cost-effective manner.

15 Q. DOES HR OUTSOURCE ANY SERVICES?

16 A. Yes. HR uses outsourcing on a targeted basis, when that choice will lead to increased  
17 efficiency (*i.e.*, lower cost) in service provision or enhanced quality. One such example  
18 relates to AEP’s employee benefits administration services. In 2014, HR leveraged  
19 competitive bidding to select an external vendor, Mercer, to provide benefits  
20 administration services for AEP’s health & welfare and defined benefit pension plans.  
21 This change enhanced our ability to quickly react to a rapidly evolving healthcare  
22 industry and legislative environment. It also improved the employee experience

1 through upgraded technology and an integrated mobile-friendly online interface that  
2 could not have been developed internally at comparable cost.

3 Q. HOW IS HR ORGANIZED?

4 A. HR is organized into three primary areas: Total Rewards, Employee Relations, and  
5 Talent Management, with a fourth component, Corporate Stewardship that fosters  
6 strategy and policy coordination and integration.

7 Q. PLEASE GIVE MORE DETAIL REGARDING EACH PRIMARY AREA OF HR.

8 A. EXHIBIT BSH-1 contains the HR Organization Chart, which provides a view by area  
9 of support.

10 a. Total Rewards (Benefits & Compensation): Includes design, development,  
11 management, and administration of all benefits and compensation programs,  
12 including compensation, health and welfare benefits, retirement pension and  
13 401(k), payroll administration, work/life balance and physical and financial  
14 wellness programs, and statutory benefits (e.g., Family Medical Leave Act  
15 [FMLA], long-term disability and workers' compensation).

16 b. Employee Relations: Provides localized strategic consultation and support in all  
17 areas of employee relations including employee counseling, investigations  
18 resulting from allegations of employee misconduct, conflict resolution, disciplinary  
19 actions, flexible work arrangements, diversity and inclusion activities, workforce  
20 planning, communications, community service, outplacement, severance,  
21 compliance, reporting, and labor relations.

22 c. Talent Management: Includes design, development, and administration of  
23 leadership programs and processes designed to enhance leadership effectiveness,  
24 team performance and employee engagement. Provides development training for  
25 new supervisors and resources to enhance skills of existing leaders. Provides  
26 consultation and support in performance management, team development,  
27 organization effectiveness, succession, and workforce planning. Includes a talent  
28 acquisition center of excellence to foster efficient recruitment, screening, and  
29 placement of talent for positions across AEP's footprint. Also includes leading  
30 Business Units through a structured Future of Work process to identify and leverage  
31 opportunities to transform how work is done.

32 d. Corporate Stewardship: Provides HR management and oversight as well as overall  
33 HR functional coordination, policies, guidelines, and strategic initiatives, such as  
34 cultural transformation and reorganizations.



1 Q. ARE ALL HR SERVICES PROVIDED TO SWEPCO NECESSARY TO SUPPORT  
2 THE PROVISION OF RELIABLE UTILITY SERVICE?

3 A. Yes. All HR services are essential to the support and to the success of any large and  
4 complex business such as SWEPCO. Each HR service is specifically designed to meet  
5 employee needs and enhances SWEPCO's ability to attract, develop, and retain the  
6 best-qualified workforce to meet customers' needs.

7 Q. IS THERE ANY DUPLICATION OF SERVICES PROVIDED BY HR?

8 A. No. All the HR services provided to SWEPCO are provided exclusively by HR and by  
9 no other organization within AEP. SWEPCO does not provide any HR services to  
10 itself. Moreover, the various organizations within HR have unique responsibilities and  
11 there is no overlap.

12

13 III. REASONABLENESS AND NECESSITY OF  
14 HR DEPARTMENT AFFILIATE CHARGES

15 Q. WHAT WAS THE AMOUNT CHARGED TO SWEPCO FOR HR SERVICES IN  
16 THE ADJUSTED TEST YEAR?<sup>1</sup>

17 A. During the adjusted Test Year, SWEPCO Texas HR costs were \$2,327,137, as outlined  
18 below. The adjusted Test Year costs are broken out by major function in the table  
19 below:

---

<sup>1</sup> The Test Year is the period from April 1, 2019 through March 31, 2020.

1

TABLE BSH-1

SWEPCO TX: Human Resources & Labor Relations Services	
HR Benefits & Compensation (Total Rewards)	\$543,489
HR Employee Relations	\$726,043
HR Talent Management	\$428,307
HR Corporate Stewardship	\$629,298
Overall Amount Charged	\$2,327,137

2 Q. WHAT DOES HR DO TO ASSURE THAT IT CONTINUES TO DELIVER THE  
3 SERVICES NEEDED AT A REASONABLE COST?

4 A. HR continuously looks at the overall HR staff size, structure, and the specific expertise  
5 needed in the HR organization, as well as where we are spending our time and focus.

6 In addition, we review each HR role and service on a continual basis to ensure  
7 that they are necessary. We have been able to control our cost of service to SWEPCO  
8 while providing the same high-level HR services through the expansion and  
9 consolidation of roles, outsourcing of services, and focusing on efficient ways to serve  
10 the needs of employees.

11 We also continue to aggressively look for ways to gain efficiencies by taking  
12 greater advantage of technological improvements. For example, we continue to  
13 encourage managers and employees to utilize self-service, which enables them to  
14 conduct a number of HR-related transactions and access various online resources and  
15 information at their convenience. Other recent examples of continuous improvement  
16 are addressed in Section VII of this testimony.

17 Q. HOW DO YOU DETERMINE THE REASONABLENESS OF HR COSTS TO  
18 SWEPCO?

1 A. To determine the reasonableness of HR costs, I have focused on budget cost controls,  
2 benchmarking, and process improvements to align with best practices. The overall HR  
3 budget performance, cost and staffing trends, and benchmark information that I discuss  
4 below include the costs of HR support to the various AEPSC departments that provide  
5 services to SWEPCO, as well as HR support costs for SWEPCO.

6

7 IV. BUDGET CONTROLS AND COST TRENDS

8 Q. WHAT TYPE OF BUDGETING PROCESS IS EMPLOYED WITH REGARD TO  
9 HR COSTS?

10 A. Approximately six months prior to each calendar (fiscal) year, AEP's Chief Financial  
11 Officer leads a process to establish operations and maintenance (O&M) and capital  
12 budget guidelines for the following year. Annual budgets are developed for each AEP  
13 organization such as HR, and include a forward-looking projection of anticipated O&M  
14 and capital expenditures. The budget is determined and allocated within HR according  
15 to a variety of sources and factors, including prior year spending, the scope of services  
16 to be provided, operational goals, and priorities for the coming year.

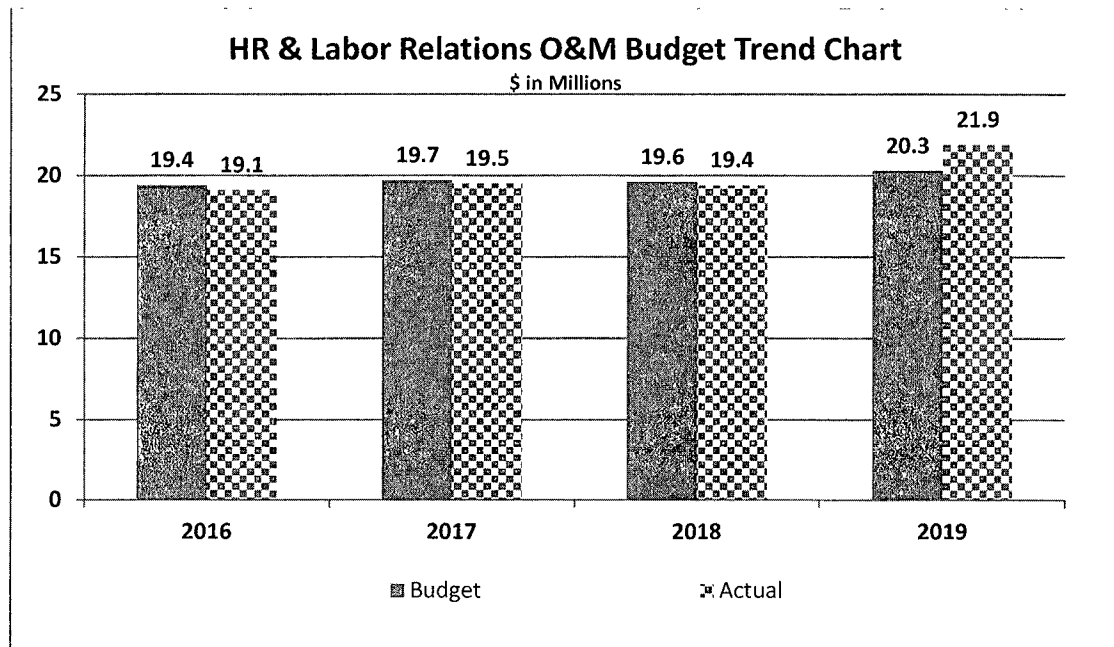
17 Spend against the current year budget is reviewed on a monthly basis, and year-  
18 end projections are revised as appropriate. The annual HR budget is modeled through  
19 the AEPSC billing system, and the projected spend is included as part of an annual  
20 review with each AEP Operating Company.

21 Q. ONCE BUDGETS ARE IN PLACE, WHAT FURTHER COST MONITORING  
22 OCCURS?

1 A. HR spend is closely monitored throughout the year to ensure actual expenditures are  
2 within budget parameters. This monitoring occurs through the use of monthly variance  
3 reports. The expectation for and commitment of HR is to exercise prudence and spend  
4 only what is needed to provide effective and efficient service to our Business Unit  
5 partners.

6 Q. WHAT HAS BEEN THE TREND IN HR-WIDE BUDGET AND ACTUAL  
7 EXPENDITURES IN RECENT YEARS?

8 **CHART BSH-1**



9  
10 As seen in the "Human Resources & Labor Relations Budget Trend" chart depicted  
11 immediately above, HR has managed spend within a narrow range. Spend in 2018  
12 reflected a shift of resources from O&M to information systems projects (Capital) to  
13 enhance service and process efficiency. In 2019, incremental spend was required to

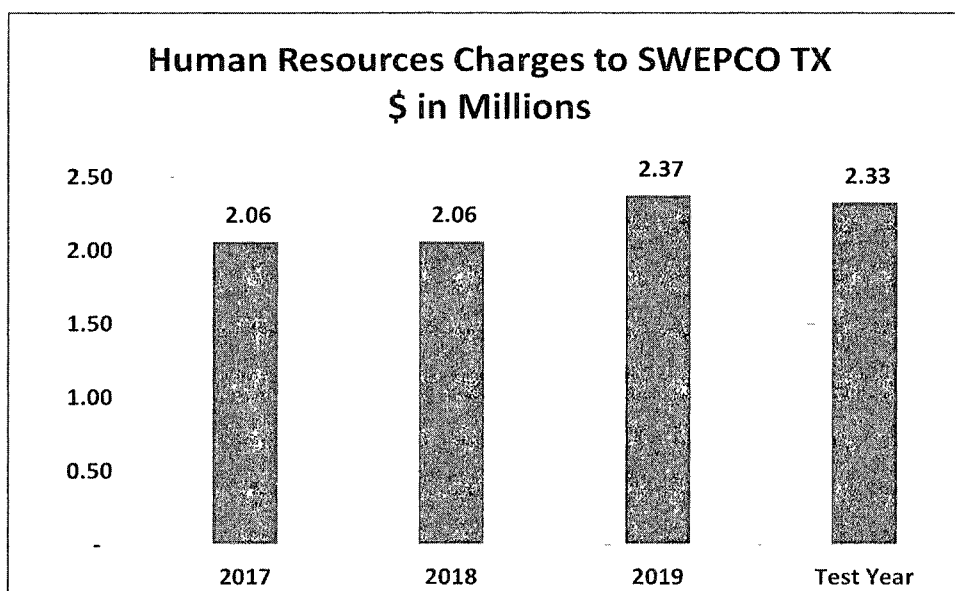
1 support talent acquisition (staffing) activities and to provide for knowledge transfer in  
2 conjunction with retirements in several key leadership positions.

3 HR has worked to contain costs and spending in various ways. In spite of  
4 increased expectations and new demands for HR support, we have been able to manage  
5 costs within an average inflation of 3-4% per year by continually exploring lower cost  
6 alternatives. For example, when vacancies in HR occur, we analyze our work processes  
7 to ensure that we do not backfill positions in-kind without first challenging whether  
8 work can be redistributed to either avoid replacement or to enable staffing at a lower  
9 skill and cost level.

10 Q. WHAT HAS BEEN THE TREND IN COSTS BILLED BY HR TO SWEPCO  
11 TEXAS?

12 A. Please refer to the following chart, which shows costs billed for 2017-2019 and the  
13 adjusted Test Year:

14 CHART BSH-2



1 Q. WHAT DO YOU CONCLUDE FROM THE COST TREND?

2 A. Consistent with the active cost management shown in the HR budget comparison, the  
3 cost trend for HR charges reflects stable cost management to the benefit of SWEPCO  
4 Texas.

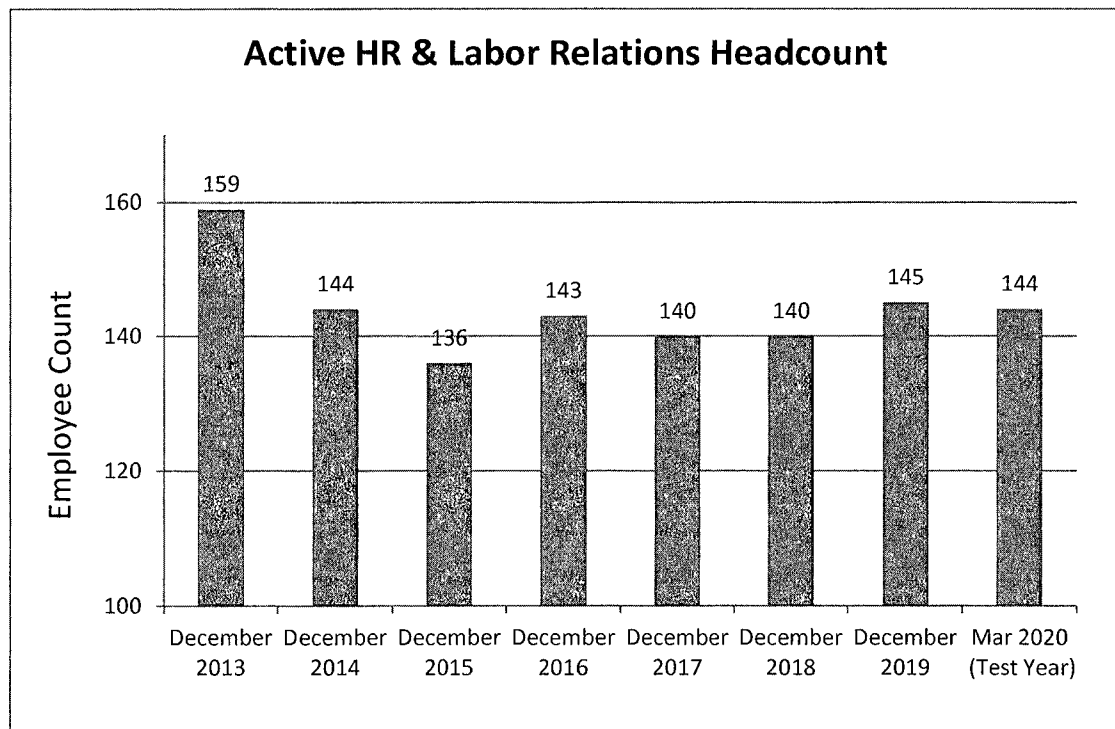
5

6 V. FULL-TIME EQUIVALENT (FTE) TRENDS

7 Q. WHAT IS THE TREND IN HR HEADCOUNT SINCE 2013?

8 A. The following chart demonstrates that the HR headcount has declined since  
9 2013. Since consolidating Total Reward and HR administrative operations in 2014,  
10 the HR headcount has been held flat, aside from periodic vacancies.

**CHART BSH-3**



1 VI. BENCHMARKING

2 Q. WHAT BENCHMARKS ARE UTILIZED IN HR TO EVALUATE  
3 PERFORMANCE?

4 A. HR periodically leverages HR benchmarking studies. In March 2019, AEP utilized  
5 research recently published by Gartner -- a respected expert in the HR arena -- to obtain  
6 comparisons of HR functions to both other utilities and a broad array of companies  
7 across industries. This research, the "Gartner Budget & Staffing Benchmark Report:  
8 2018 Reporting Year," is one of several tools AEP has found to be useful in evaluating  
9 HR performance. HR focuses on a handful of basic metrics that are viewed as standard  
10 measures of relative performance for HR organizations. These metrics include a  
11 baseline that companies can compare themselves against.

12 Q. WHAT WERE THE KEY METRICS OF THE GARTNER STUDY?

13 A. We chose the following key metrics as standard, broad HR benchmarks and the best  
14 points of comparison:

- 15 • Employee FTEs per HR Staff FTEs – Number of employees that each HR  
16 employee supports in the organization;
- 17 • HR Expense per Employee FTE Count – Amount directly invested in the  
18 HR Department for each AEP full-time equivalent FTE; and
- 19 • HR Expense as a % of Revenue – Direct HR costs as a percent of revenue.

20 Q. HOW DID AEP COMPARE IN TERMS OF THESE METRICS IN THE STUDY?

21 A. The results are in the table below. In every instance, the results demonstrate that HR  
22 is operating more effectively than the median range. This analysis indicates that HR is  
23 effectively leveraging opportunities for economies of scale and is providing necessary  
24 HR services with fewer employees and dollars than the utility sector as a whole.

TABLE BSH-2

<u>HR Key Performance Indicators</u>			
Benchmark Comparisons			
Employee FTEs per HR Staff FTEs	75th	Median	25th
Utility Sector	53.52	45.26	37.79
All Industries	81.42	61.17	41.25
AEP HR Actual	127.26	(# of employees served by each HR ee )	
HR Expense per Employee FTE Count	25th	Median	75th
Utility Sector	\$2,697	\$3,205	\$4,404
All Industries	\$1,489	\$2,496	\$3,879
AEP HR Actual	\$1,694	(HR cost to serve employee)	
HR Expense as a % of Revenue	25th	Median	75th
Utility Sector	0.33%	0.34%	0.72%
All Industries	0.42%	0.82%	1.34%
AEP HR Actual	0.18%	(Cost as a % of Revenue)	

Charts created by AEP based on Gartner research Source: Gartner, Inc., Budget & Staffing Benchmark Report, 2018  
Reporting Year AEP-related calculations performed by AEP

2 Q. WHAT OTHER BENCHMARKING DOES HR PERFORM AND HOW DOES AEP  
3 COMPARE?

4 A. Within HR, the IDRC manages the Company's disability programs, which include sick  
5 leave, workers' compensation, long-term disability (LTD), FMLA, Americans with  
6 Disabilities Act, and military leave processes. The IDRC also coordinates all return-  
7 to-work programs for each type of absence. The IDRC benchmarks against data  
8 provided by the United States Department of Labor Bureau of Labor Statistics  
9 (expressed as a percentage of productive payroll) to assess each form of absence  
10 management.

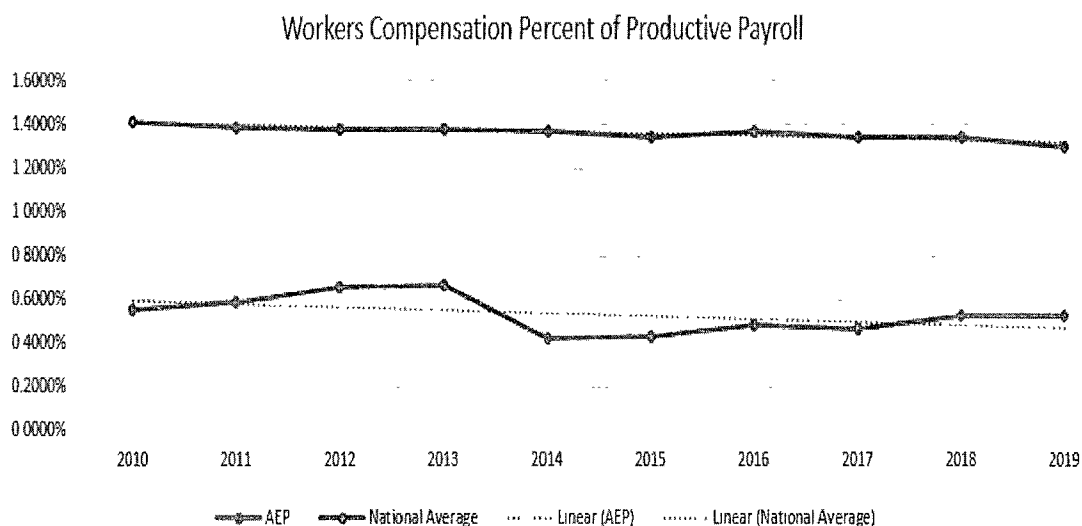
11 This national data is helpful in providing direct, relative comparison for  
12 workers' compensation absences because these benefits are mandatory and therefore



1 universal. Direct, relative comparison of sick leave and LTD to these national averages  
2 is less meaningful because of inconsistencies in the level of benefit coverage for sick  
3 leave and LTD across industries and employers. However, these benchmarks are still  
4 useful in evaluating year-to-year trends in absence rates as a reflection of attendance  
5 management efficacy.

6 **Workers' Compensation:**

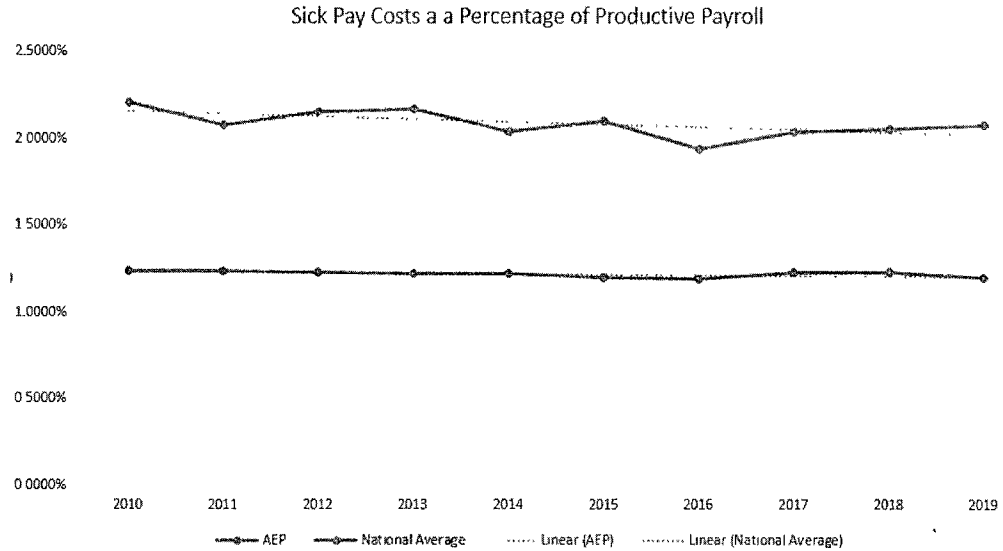
7 **CHART BSH-4**



8 As the chart above shows, AEP's workers' compensation costs were much lower than the  
9 national average and have been decreasing at a greater rate than the national average.

**Sick Leave (Short-Term Disability):**

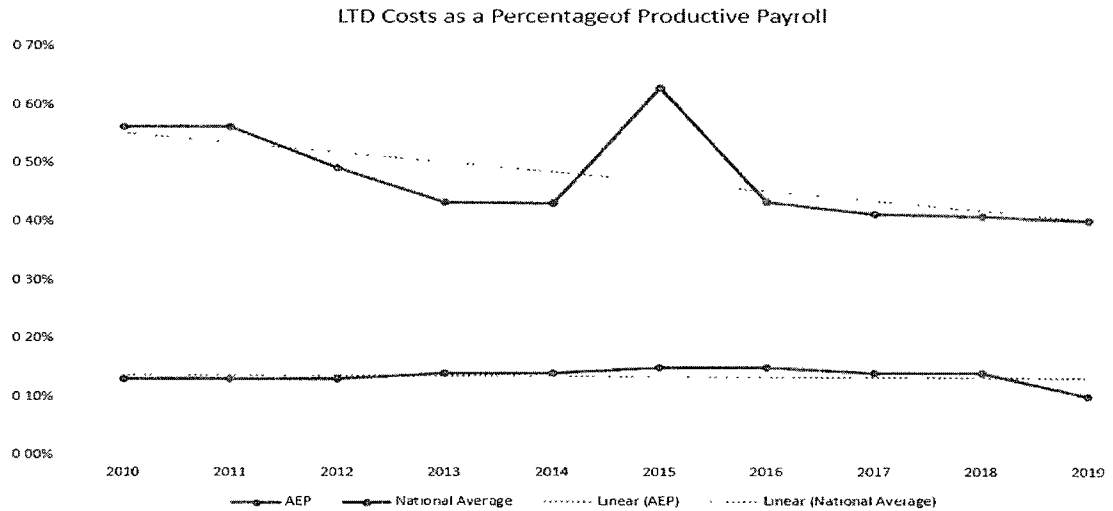
**CHART BSH-5**



Although AEP's sick leave costs were above the national average, AEP is continuing to drive its costs down while the national average is remaining relatively flat.

**LTD:**

**CHART BSH-6**



1 AEP's sustained pattern of cost reduction can be seen with respect to its declining LTD  
2 costs, national LTD costs have been flat.

3 Q. DOES HR TRACK EFFECTIVENESS IN PROVIDING SERVICE TO AEP  
4 EMPLOYEES?

5 A. Yes. For example, administration of AEP's pension benefits is outsourced to Morneau  
6 Shepell. An opportunity to complete a survey is offered after the end of every phone  
7 call to the call center as well as after each participant website transaction. The survey  
8 questions relate to the level of courtesy and knowledge of the HR representative,  
9 follow-up, website tools, and the overall experience of the participant. The most recent  
10 survey results for 2019 resulted in a 95.85% satisfactory rate, reflecting responses of  
11 "very satisfied" or "satisfied." This is based on over 2,000 survey responses. By  
12 continually monitoring satisfaction, we are able to ensure responsive service while  
13 maintaining low cost.

14

15 VII. PROCESS IMPROVEMENTS

16 Q. DOES HR CONTINUALLY INSTITUTE PROCESS IMPROVEMENTS?

17 A. Yes. Some recent examples of changes HR staff has initiated and executed are:

- 18 • In 2015, we conducted an evaluation of our workers' compensation Third Party  
19 Administrator and bill repricing services to make sure we are getting the best  
20 services at the most reasonable cost.
- 21 • In 2015, we initiated an LTD settlement opportunity that will reduce costs and the  
22 number of claims and save money on the administration of those claims over time.
- 23 • In 2015, we began an evaluation of our absence case management processes using  
24 Lean principles and tools. We were able to find ways to make our processes more  
25 efficient and effective in order to lower absence durations and costs.

- 1       • In 2015, our Lean recruiting project automated a number of process steps to free up  
2       recruiters' time for higher-value work. Recruiters no longer have to manually add  
3       standard job posting pre-screening questions for each job. Our recruiting and other  
4       information systems were also altered for more frequent data feeds to reduce  
5       processing delays. Additionally, an HR employee no longer manually assigns  
6       approvers for staffing requests.
- 7       • In 2016, we further streamlined onboarding activities, moving to a cloud-based  
8       system that is integrated with our existing applicant tracking system.
- 9       • In 2016, we consolidated the active employee health plans into one vendor,  
10      Anthem, and discontinued our Preferred Provider Organization plan as we moved  
11      to exclusively offering Consumer Driven Health Plans (one Health Reimbursement  
12      Arrangement and two Health Savings Account plans) as a means of slowing the  
13      pace of health care inflation by more actively engaging employees in active cost  
14      and care management.
- 15      • In 2017, we utilized an RFP process to solicit bids from various background check  
16      vendors; this enabled efficiencies and enhanced system integration by transitioning  
17      from PeopleFacts to Accurate Background Inc.
- 18      • In 2017, we participated in AEP's Future of Work pilot, a project that automated  
19      the transfer of documents (applications, disclosure authorizations, resumes, etc.)  
20      from AEP's applicant tracking system to our human capital management system,  
21      PeopleSoft, which feeds employee electronic personnel files.
- 22      • In 2017, we implemented a new absence management system, AbsenceSoft, which  
23      supports more streamlined case management and reporting. When coupled with a  
24      Lean process improvement effort (2016), the IDRC has been able to "fast track"  
25      25% of active absence cases through a simplified and less labor-intensive work  
26      stream, enhancing team efficiency and productivity. AbsenceSoft provided a  
27      foundation for further IDRC process automation in 2018 and 2019 and has enabled  
28      agile response to COVID-19 case management and leave policy administration  
29      throughout 2020.
- 30      • In 2019, we modified our background check policy to strengthen our criminal  
31      checks in an effort to ensure our employees do not pose a risk to public safety or  
32      workplace safety.
- 33      • In both 2019 and 2020, HR's Leadership and Organizational Development team  
34      provided resources to help leaders improve engagement within their teams. The  
35      Accelerating Culture Improvement program was offered as a way to help leaders  
36      support teams where engagement was not as strong.

- 1 • In 2020, we launched a series of virtual sessions to share best practices pertaining  
2 to four common areas of focus for team success. The virtual sessions offered a mix  
3 of research insights and direct AEP leadership sharing within and across teams.
- 4 • In 2020, HR Talent Acquisition implemented a candidate relationship management  
5 system to help build stronger pipelines to future talent. The tools allow us to  
6 connect and engage talent even when we may not have an open position, facilitating  
7 connection over time and providing a more modern candidate experience.
- 8 • In 2020, Talent Acquisition launched a portal to streamline the requests hiring  
9 managers need to make to onboard a new employee (e.g., order a computer, set up  
10 system access, assign a desk, set up phone, etc.). The portal consolidates the system  
11 access required for these requests and reduces the amount of repetitive data that  
12 must be entered.
- 13 • In 2020, Talent Acquisition also adopted the new Federal Motor Carrier Safety  
14 Administration Drug and Alcohol Clearinghouse as part of our new hire and  
15 periodic reviews for those employees who drive a commercial vehicle as part of  
16 their role.

17

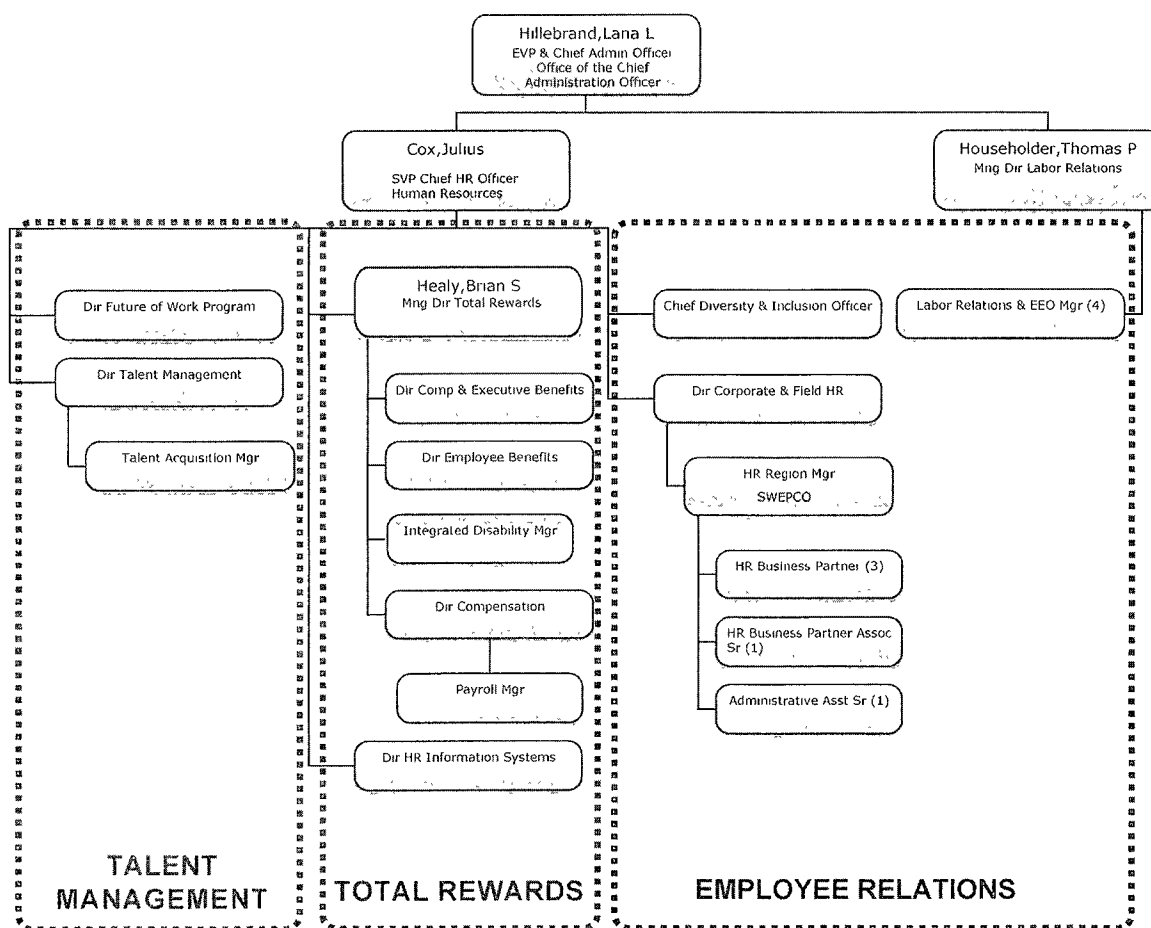
18 VIII. CONCLUSION

19 Q. WHAT IS YOUR CONCLUSION REGARDING THE REASONABLENESS AND  
20 NECESSITY OF HR CHARGES TO SWEPCO?

21 A. The combination of indicators I have examined, including budget and cost trends, FTE  
22 trends, HR staffing, benchmarking, and process improvements, support the conclusion  
23 that these charges are reasonable and necessary for the provision of effective and HR  
24 services to SWEPCO.

25 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

26 A. Yes, it does.



### EXECUTIVE SUMMARY OF ANDREW R. CARLIN

Andrew R. Carlin is employed by American Electric Power Service Corporation (AEPSC) as the Director of Compensation & Executive Benefits for the American Electric Power Company, Inc. (AEP) system. Mr. Carlin demonstrates that the compensation and benefits provided to Southwestern Electric Power Company (SWEPCO) and AEPSC employees are prudently designed, effectively managed, market-competitive, and necessary for the attraction and retention of employees with the skills and experience necessary to provide reliable electric service, at a reasonable cost, to SWEPCO customers.

SWEPCO employees are compensated through a combination of base pay and incentive pay programs that benefit customers by improving the cost and quality of the work that employees perform for customers. However, the amount of Incentive Compensation the Company is seeking to recover and include in its rate base for employees that are not union represented is consistent with the PUCT's practice with respect to excluding financially based Incentive Compensation and 50% of any financially based funding mechanism. Nevertheless, the Company continues to disagree with this practice and expects legislation to be introduced in the Texas Legislature that would require electric utility Incentive Compensation to be treated in a manner that is consistent with the law recently passed for gas utilities. Therefore, the Company also provides evidence in support of its position that the target level of Incentive Compensation should be included in the Company's cost of service if the anticipated legislation is enacted.

With respect to union represented employees, for whom short-term incentive (STI) compensation was collectively bargained, the Company is requesting inclusion of the full target level of STI in its cost of service, which is presumed to be reasonable pursuant to Section 14.006 of the Public Utility Regulatory Act (PURA).

AEP's incentive compensation plans are not designed as "bonuses" or additions to an already appropriate level of compensation. SWEPCO's and AEPSC's target level of Incentive Compensation does not create Total Compensation that is over and above market-competitive Total Compensation. Instead, the Incentive Compensation is a portion of a market-competitive and reasonable Total Compensation package that SWEPCO and AEPSC carve out and place at risk to encourage performance improvement and the achievement of performance goals and objectives.

Mr. Carlin shows that, viewed as a whole, SWEPCO's total compensation is market-competitive, albeit below the market median in some instances. However, with respect to many positions, total compensation would fall below the market-competitive range if SWEPCO and AEPSC did not provide incentive compensation or replace it with some other form of compensation. This establishes that the incentive compensation opportunity AEPSC and SWEPCO provide to these positions is necessary to maintain the competitiveness of their compensation package and is a necessary, reasonable, and appropriate cost of doing business.

Mr. Carlin presents data indicating that annual incentive compensation plans are widespread in U.S. industry and among electric utility companies with at least a 5% short-term incentive target. In addition, he shows how the AEP incentive plans are funded and the performance measures considered by the plans. Ultimately, Mr. Carlin explains that SWEPCO provides annual incentive compensation in lieu of larger base salaries because it improves company performance without increasing overall compensation expense. It improves cost control and aligns work with company objectives, thereby increasing both employee and company performance. When incentive compensation is provided as a component of a market-competitive



compensation package, it has no incremental cost to the company above the cost of providing market-competitive compensation with base pay alone.

In addition, Mr. Carlin states that the primary purpose of SWEPCO's long-term incentive program is to encourage participants to make business decisions from a long-term perspective. SWEPCO provided long-term incentive awards in the form of performance units and restricted stock units (RSUs). Performance units are generally similar in value to shares of AEP common stock, except that the number of performance units that participants ultimately earn is tied to AEP's long-term performance and the participants' satisfaction of vesting conditions over a three-year period. RSUs are also generally similar in value to shares of AEP common stock, except that the number of RSUs that participants ultimately earn is tied solely to the participants' satisfaction of vesting conditions. SWEPCO is requesting recovery of the 25% of its long-term incentive compensation that is awarded as RSUs because it is not tied to any performance measures (financial or otherwise) but is instead provided to foster employee retention.

Mr. Carlin demonstrates that long-term incentive compensation is an integral component of a market-competitive compensation package that provides direct benefits to customers by enabling SWEPCO and AEPSC to attract and retain the highly-skilled and experienced managers and executives it needs to provide services to customers efficiently and effectively; emphasizing a long-term perspective in decision making; promoting efficient use of financial resources; encouraging employees to reduce expense, operate efficiently, and conserve financial resources; sending a clear message to participants that it is imperative for them to maintain financial discipline and providing a direct incentive for them to do so. Moreover, the goals in SWEPCO's long-term incentive plan are also balanced by the goals in the annual incentive plan to assure that certain financial goals are not achieved at the expense of other important objectives.

Finally, Mr. Carlin also supports the reasonableness and necessity of SWEPCO's employee benefits expenses. He explains that the benefits plans are designed to be an important component of employees' total compensation and benefits and include medical, wellness, dental, sick pay, long-term disability (LTD), life insurance, accidental death and dismemberment, retirement pension, retirement savings (401k), vacation and holiday benefits. He discusses actions SWEPCO and AEPSC have taken to control the cost of employee benefits and how AEP compares itself with companies from both the utility industry and general industry when benchmarking its total benefit value. Based on this comparison, AEP's employee benefits plans are at or near the mid-range of value, making them competitive with other businesses.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF  
SOUTHWESTERN ELECTRIC POWER COMPANY  
FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF  
ANDREW R. CARLIN  
FOR  
SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020

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## EXHIBITS

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
EXHIBIT ARC-1	Previous Rate Case Testimony List
EXHIBIT ARC-2	Compensation Survey List
EXHIBIT ARC-3	Target Total Cash Compensation vs. Market for Technical, Craft and Clerical Positions
EXHIBIT ARC-4	Target Total Cash Compensation vs. Market for Nonexempt Salaried Positions
EXHIBIT ARC-5	Target Total Cash Compensation vs. Market for Exempt Positions
EXHIBIT ARC-6	Target Total Cash Compensation and Total Compensation vs. Market for Executive Positions
EXHIBIT ARC-7	2020 SWEPCO ICP Framework
EXHIBIT ARC-8a	Benefit Plan Design and Employee Cost Summary – 2020
EXHIBIT ARC-8b	Benefit Plan Design and Employee Cost Summary – 2019
EXHIBIT ARC-9a	SWEPCO Benefit Costs
EXHIBIT ARC-9b	SWEPCO Employer and Employee Healthcare Contributions
EXHIBIT ARC-10	<b>CONFIDENTIAL</b> 2019 Aon Benefit Index
EXHIBIT ARC-11	<b>CONFIDENTIAL</b> 2019 HVI Report

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Andrew R. Carlin, and my business address is 1 Riverside Plaza,  
4 Columbus, Ohio 43215.

5 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

6 A. I am employed by American Electric Power Service Corporation (AEPSC), a wholly  
7 owned subsidiary of American Electric Power Companies, Inc. (AEP), as Director  
8 Compensation & Executive Benefits. AEP is the parent company of Southwestern  
9 Electric Power Company (SWEPCO or the Company). AEPSC supplies engineering,  
10 financing, accounting, human resources, and similar administrative, planning, and  
11 advisory services to AEP's regulated operating companies and other AEP subsidiaries.

12 In this testimony, I refer to SWEPCO and AEPSC collectively as the Companies.

13 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND  
14 BUSINESS EXPERIENCE.

15 A. I received a Bachelor of Arts Degree from Bowdoin College in 1988 with majors in  
16 both Economics and Government. I also received a Master of Business Administration  
17 Degree from the J. L. Kellogg Graduate School of Management at Northwestern  
18 University in 1992, with concentrations in finance, management strategy, and  
19 accounting.

20 From 1987 to 1988, I worked for Putnam Investor Services as a Shareholder  
21 Services Representative. From 1988 to 1990 and in the summer of 1991, I worked as  
22 an Associate Consultant and Research Analyst in the U.S. Compensation Practice for  
23 William M. Mercer, a leading international human resource consulting firm. From 1992

1 to 2000, I worked for Bank One Corporation, now J.P. Morgan Chase, in multiple  
2 planning, finance and compensation capacities.

3 I joined AEPSC as the Director of Executive Compensation & Benefits in 2000.  
4 In 2002, I took responsibility for employee compensation in addition to executive  
5 compensation and benefits.

6 Q. BRIEFLY DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS DIRECTOR  
7 – COMPENSATION AND EXECUTIVE BENEFITS.

8 A. With assistance from others members of the Total Rewards department and oversight  
9 from AEP management, I am primarily responsible for designing and administering  
10 compensation and executive benefits programs that attract, engage, motivate, and  
11 enable the Companies to retain current and prospective employees with the skills and  
12 experience needed to provide service to customers effectively, efficiently, and safely.  
13 The programs are components of a Total Compensation program that is designed to be  
14 market competitive overall. The Total Rewards team conducts ongoing research and  
15 recommends changes to compensation and benefit programs to maintain compensation  
16 and benefits at reasonable, prudent, and market-competitive levels in order to achieve  
17 these objectives. The team also develops communications materials in support of  
18 compensation and benefit programs and monitors compliance with federal and state  
19 regulations related to compensation and benefits.

20 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITY  
21 COMMISSION OF TEXAS (PUCT OR THE COMMISSION) OR ANY OTHER  
22 REGULATORY COMMISSION?

1 A. Yes. I have testified in person or submitted written testimony in many regulatory  
2 proceedings, including several before the PUCT. Please see EXHIBIT ARC-1 for a  
3 listing of these proceedings.

4 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

5 A. The purpose of my testimony is to demonstrate that the compensation and benefits the  
6 Companies offer employees is customary, prudent, and necessary for the provision of  
7 reliable electric service safely, efficiently, effectively and at a reasonable cost to  
8 SWEPCO customers. I will demonstrate that these programs, in part and in total, are  
9 prudently designed, effectively managed, and market-competitive. I will also describe  
10 many actions taken by the Companies' management to reduce the growth of  
11 compensation and benefits expense. I will also show that the provision of  
12 market-competitive compensation and benefits is necessary for the attraction and  
13 retention of employees with the skills and experience necessary to provide reliable  
14 electric service, at a reasonable cost, to SWEPCO customers.

15 My testimony will demonstrate that reasonable, market competitive  
16 compensation includes a combination of both Base Pay and Incentive Compensation  
17 that benefits customers by improving the cost and quality of the work that employees  
18 perform for customers. However, the amounts of Incentive Compensation the  
19 Company is seeking to recover and include in its rate base for employees that are not  
20 union represented is consistent with the PUCT's practice with respect to excluding  
21 financially based Incentive Compensation and 50% of any financially based funding  
22 mechanism. Nevertheless, the Company continues to disagree with this practice and  
23 expects legislation to be introduced in the Texas Legislature that would require electric



1 utility Incentive Compensation to be treated in a manner that is consistent with the law  
2 recently passed for gas utilities. If passed, this legislation is reasonably likely to be  
3 effective during the pendency of this case and would require regulatory authorities to  
4 “presume that employee compensation and benefits expenses are reasonable and  
5 necessary if the expenses are consistent with recent market compensation studies.”  
6 Therefore, it is prudent for the Company to provide evidence in support of its position  
7 that the target level of Incentive Compensation should be included in the Company’s  
8 cost of service if the anticipated legislation is enacted. The market compensation and  
9 benefits studies presented in this testimony and exhibits show that the Companies’  
10 Total Compensation and benefits expense meets this test.

11 With respect to union represented employees, for whom short-term incentive  
12 (STI) compensation was collectively bargained, the Company is requesting inclusion  
13 of the full target level of STI in its cost of service, which is presumed to be reasonable  
14 pursuant to Section 14.006 of the Public Utility Regulatory Act (PURA).

15 My testimony will show that the Companies’ employee benefits are necessary,  
16 reasonable and market competitive. My testimony and exhibits demonstrate that as a  
17 whole, these employee benefits are comparable to programs sponsored by utility  
18 companies of similar size as well as comparable companies in the general marketplace  
19 with whom the Companies compete for labor resources. The level of SWEPCO’s costs  
20 related to the retirement pension plan, post-employment health benefits and certain  
21 accounting issues related to these benefits are addressed in the direct testimony of  
22 SWEPCO witness Michael A. Baird.

1 Q. ARE YOU SPONSORING ANY EXHIBITS?

2 A. Yes, I am sponsoring the following exhibits described below which are also listed in  
3 the table of contents to my testimony.

4 EXHIBIT ARC-1 lists my previous rate case testimony. EXHIBITs ARC-2 through  
5 ARC-7 relate to employee compensation while EXHIBITs ARC-8a through  
6 CONFIDENTIAL EXHIBIT ARC-10 relate to employee benefits. EXHIBIT ARC-2  
7 lists the compensation surveys used during the test year. EXHIBITs ARC-3, ARC-4,  
8 ARC-5, and ARC-6 compare the companies' compensation to market benchmarks for  
9 Technical, Craft and Clerical Positions, nonexempt salaried positions, exempt  
10 positions, and executive positions, respectively. EXHIBIT ARC-7 provides the 2020  
11 SWEPCO ICP Framework.

12 EXHIBIT ARC-8a and EXHIBIT ARC-8b are my summary descriptions of the  
13 benefits offered in 2020 and 2019 to all SWEPCO and AEPSC employees and the  
14 contribution rates for employees. EXHIBIT ARC-9a displays the test year benefit costs  
15 charged to SWEPCO for the employees of SWEPCO and EXHIBIT ARC-9b illustrates  
16 the employer and employee contributions per employee for healthcare benefits. AEP  
17 uses several nationally recognized third party surveys in evaluation of the  
18 competitiveness and effectiveness of the benefit plan offerings and costs; it primarily  
19 relies on the annually published Aon Benefit Index report for market comparisons of  
20 the value of the plan designs offered. CONFIDENTIAL EXHIBIT ARC-10 contains  
21 excerpts from the 2019 full report prepared by Aon, which compares the offerings of  
22 similar utility companies to AEP's benefit programs. The Aon Benefit Index assigns AEP's  
23 benefits a score that represents the competitive value of AEP's benefit program.

1 CONFIDENTIAL EXHIBIT ARC-11 contains an illustration of the medical benefit  
2 efficiency as compared to industry benchmarks. These exhibits support the  
3 reasonableness of AEP's benefit plan design and value of our overall benefits program  
4 as compared to other non-affiliated utility employers. It is a standard practice in  
5 compensation and benefits design work to rely on resources such as the survey data  
6 included in my exhibits to gauge the reasonableness of employee compensation and  
7 benefit plans.

8 Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE DO YOU SPONSOR OR  
9 CO-SPONSOR?

10 A. I co-sponsor Schedules G-2 and G-2.3 with SWEPCO witness Baird.

11  
12 II. OVERVIEW OF COMPENSATION PRACTICES

13 Q. WHAT ARE THE COMPENSATION TERMS USED IN THIS TESTIMONY?

14 A. The Companies compensate all employees, except coop students and interns, with a  
15 combination of a fixed base wage or salary (Base Pay) and a variable annual STI  
16 opportunity. I refer to the sum of these two types of compensation (Base Pay + STI) as  
17 Total Cash Compensation (TCC).

18 Approximately 1,230 positions in the AEP system also have a regular annual  
19 long-term incentive (LTI) compensation opportunity. These positions require unique  
20 skills and involve roles for which long-term continuity, prudence, and vision are  
21 required.

22 Total Compensation (Total Compensation) is comprised of Base Pay, STI  
23 compensation and, for eligible positions, LTI compensation as follows: Base Pay + STI

1 + LTI = Total Compensation. I refer to the sum of STI and LTI, if applicable,  
2 collectively as Incentive Compensation. Total Compensation and TCC are the same for  
3 employees who do not have an LTI opportunity.

4 I refer to the Target value of Incentive Compensation as (Target STI), (Target  
5 LTI) or (Target Incentive Compensation). When Target values of Incentive  
6 Compensation are combined with Base Pay, I refer to these values as Target TCC or  
7 Target Total Compensation.

8 Q. PLEASE DESCRIBE THE VARIOUS TYPES OF EMPLOYEES THAT WORK FOR  
9 THE COMPANIES AND HOW EACH TYPE OF EMPLOYEE IS COMPENSATED.

10 A. The Companies employ physical, craft, and technical employees, such as line  
11 mechanics, who are paid an hourly wage, with the potential for overtime and shift  
12 premiums, along with a STI opportunity. Wage increases for these employees primarily  
13 take the form of an annual general wage increase, which ensures that the Companies'  
14 wages keep pace with labor market inflation. The Companies may also provide equity  
15 adjustments, when needed, to address gaps to market-competitive wages and to  
16 standardize wages with those of other AEP operating companies. The Companies  
17 negotiate wage rates and wage increases for most physical, craft, and technical  
18 employees with labor unions as part of a collective bargaining agreement. The  
19 Companies consider reasonable and market-competitive compensation rates in  
20 determining their position for labor negotiations. Collectively bargained rates are  
21 generally mirrored in setting wages for unrepresented physical, craft, and technical  
22 employees. As a result, the wages the Companies offer to employees for both

1 represented and unrepresented physical, craft, and technical positions are closely  
2 aligned with market-competitive compensation.

3 Physical, craft, and technical employees also progress through job steps and job  
4 levels as they accumulate the experience and other qualifications needed to perform  
5 more demanding, dangerous, and difficult work safely. For example, in order to  
6 progress from Line Mechanic B, step 4, Line Mechanics must complete the experience  
7 and other qualifications for the Line Mechanic A, step 1 level. Once an employee  
8 progresses to a new job step or level, they begin receiving both the pay and work  
9 responsibilities associated with the higher position.

10 The Companies also employ non-exempt salaried employees as well as exempt  
11 professional, managerial, and executive employees. Employees in these types of  
12 positions participate in an annual performance review and merit pay program, along  
13 with the annual STI program. Some professional positions, most managerial positions,  
14 and all executive positions also participate in an LTI program. AEPSC's Compensation  
15 team compares the compensation for these positions to market survey information to  
16 assign or reassign positions to salary grade levels and recommend compensation and  
17 other changes to maintain Total Compensation at reasonable and market-competitive  
18 levels.

19 Q. DO THE COMPANIES FACE COMPETITION FOR SUITABLE EMPLOYEES?

20 A. Yes, the Companies are in continuous competition to attract and retain suitable  
21 employees for nearly all types of positions. The competition is particularly stiff and  
22 relentless for fully trained employees with the necessary skills and experience needed  
23 to provide service to customers efficiently, effectively and safely. The Companies'

1 current and prospective employees largely have other options and no pressing need to  
2 accept or continue an employment relationship with the Companies. The Companies  
3 compete for these employees with other utilities and utility contractors both within and  
4 outside our service territory, as well as with employers in other industries, such as  
5 construction. Contractors perform roughly half of the Companies' physical, craft, and  
6 technical work, and the entities that perform this work compete with the Companies,  
7 directly or indirectly, for suitable employees. Contractors are free to structure the mix  
8 of Base Pay and Incentive Compensation they offer to employees in any manner that  
9 the labor market will bear. The market survey data shows that, at the median, employers  
10 provide Incentive Compensation to all of the Companies' positions. (I discuss this in  
11 more detail in the COMPETITIVENESS OF TOTAL COMPENSATION section  
12 below). As a result, it is likely that a significant portion of the cost of the Companies'  
13 contract labor is for Incentive Compensation.

14 Q. WHAT IS THE COMPANIES' OVERALL APPROACH TO COMPENSATION?

15 A. The primary objective of Companies' Total Compensation program is to allow it to  
16 attract and retain the suitably skilled and experienced employees needed to provide  
17 service to customers efficiently, effectively and safely. The Companies' compensation  
18 strategy for achieving this objective for all types of positions is to provide a Total  
19 Compensation opportunity that is, on average, at the median of the Total Compensation  
20 opportunities provided for similar positions in the labor market from which the  
21 Companies attract and retain employees for each position. Focusing on the Total  
22 Compensation opportunity, rather than Base Pay alone, is the correct methodology for

1 compensation comparisons because only Total Compensation takes all statistically  
2 significant types of compensation into account.

3 As with the majority of large employers, the Companies finds that providing a  
4 market-competitive Total Compensation package to employees is an efficient and  
5 effective strategy because it allows the company to attract and retain the suitably skilled  
6 and experienced employees needed to provide service to customers without either  
7 paying above median Total Compensation or creating excessive position vacancy.

8 For positions that are specific to the energy services industry, the Companies  
9 use energy services industry specific compensation survey data, which is the only data  
10 available for positions specific to the energy services industry. For positions found in  
11 multiple industries, the Companies use general industry survey data, which provides  
12 the largest possible sample. In both cases, since AEP operates in multiple states and  
13 regions of the United States, the Companies use U.S. national compensation survey  
14 data, which also has the benefit of providing the largest and most statistically  
15 significant possible sample.

16 The Total Compensation opportunity that the Companies provide is comprised  
17 of Base Pay and a variable 'at risk' Incentive Compensation opportunity. Within a  
18 reasonable, customary and market competitive level of Total Compensation, the  
19 Companies provide variable compensation to motivate and encourage employees to  
20 control costs, improve customer service and work safely, among other reasons.  
21 Variable Incentive Compensation also uses compensation dollars the Companies would  
22 have needed to spend even if it did not provide variable compensation, to encourage  
23 employees to improve both their own and, as a collective result, the Companies'

1 performance. Including variable Incentive Compensation in the Total Compensation  
2 mix allows the Companies to more effectively communicate operational goals, align  
3 employee efforts with these goals, encourage goal achievement and bolster the  
4 development of a high performance culture, without increasing compensation expense.

5 Because Incentive Compensation fosters a better performing workforce than  
6 Base Pay alone, the Companies believes that a blend of these two types of  
7 compensation is the most cost efficient and effective compensation strategy for  
8 providing reliable electric services to customers. This approach also better enables the  
9 Companies to compete in the labor market to attract, retain and engage higher  
10 performing employees than would be attracted, retained and engaged by the same  
11 amount of Total Compensation provided only in the form of Base Pay. The benefits  
12 provided by variable Incentive Compensation (better operational performance,  
13 improved teamwork, and reduced cost, among other benefits) reduce the Companies'  
14 cost of providing electric service, which directly benefits customers.

15 Q. DOES THE USE OF MARKET MEDIANS AS BENCHMARKS MEAN THAT  
16 EMPLOYEE COMPENSATION WILL GENERALLY BE AT THE MEDIAN?

17 A. Not necessarily. First, since market compensation rates move in ways that are not  
18 always predictable, the Companies design compensation to be within a market-  
19 competitive range around the market median. In addition, salary ranges for each salary  
20 grade extend approximately 22.5% above and below the midpoint, and the salaries for  
21 individual salaried employees may fall anywhere within the assigned range depending  
22 on individual performance, qualifications, time in job, and other factors.



1 Q. HOW DO YOU DETERMINE THAT TOTAL COMPENSATION LEVELS ARE  
2 REASONABLE AND MARKET-COMPETITIVE?

3 A. The Compensation team compares the Companies' compensation levels and practices  
4 to those of similar employers for similar positions to ensure that they are reasonable  
5 and market-competitive. The Compensation team relies on third-party compensation  
6 surveys to provide robust market compensation benchmarks based on statistically  
7 sound survey methodologies, including extensive and independently verified  
8 compensation information for statistically significant samples of incumbents in a wide  
9 variety of jobs.

10 In order to make these comparisons, the Compensation team matches the  
11 Companies' positions to the survey positions based on each jobs function, specialty,  
12 level, and other factors. The Compensation team then compares the Companies'  
13 compensation levels and practices to the survey sample to determine the best  
14 compensation benchmark for the matched jobs, taking into account any material  
15 differences in each position's scope. Market median Total Compensation is generally  
16 used as the primary compensation benchmark for each job. Base Pay, Target TCC and,  
17 when applicable, Target Total Compensation are used as additional points of  
18 comparison. The Compensation team then assigns each merit pay eligible job to a  
19 salary grade, with an associated salary range, STI target and, if applicable, LTI target  
20 based on the salary grade range that best fits each position's market-competitive  
21 compensation benchmark, while also providing a smooth grade progression for job  
22 families and internal equity. The Compensation team also uses this process to  
23 periodically review and, as needed, update compensation rates, salary grades, incentive

1 targets and other compensation practices to maintain market-competitive compensation  
2 for each position. This process is consistent with the compensation practices of the vast  
3 majority of electric utilities and other large U.S. companies. The market compensation  
4 surveys completed and used in this process to evaluate compensation for the test year  
5 are listed in EXHIBIT ARC-2.

6 Q. WHY IS AN EMPLOYEE'S TOTAL COMPENSATION CHOSEN AS THE  
7 PRIMARY POINT OF COMPARISON RATHER THAN BASE SALARY LEVELS?

8 A. The Compensation team uses Total Compensation as the primary point of comparison  
9 because it includes all statistically significant types of employee compensation. Only  
10 with the variable incentive portion does the Companies' Total Compensation generally  
11 reach a reasonable and market-competitive level. Survey information shows  
12 definitively that the STI is a significant component of market-competitive  
13 compensation for all of the Companies' positions. Likewise, survey information shows  
14 that LTI is a significant and often substantial component of market-competitive  
15 compensation for those positions that are generally eligible to participate in the  
16 Companies' LTI program. Therefore, no assessment of market-competitive  
17 compensation for the Companies' positions would be valid without including both  
18 these types of Incentive Compensation.

19 In addition, because the Compensation team considers the value of Incentive  
20 Compensation provided by both the market and the Companies in assigning job grades  
21 to positions, the Companies' Base Pay levels are typically lower than employers that  
22 provide less or no Incentive Compensation opportunity. Because the percentage of  
23 Base Pay, STI, and LTI in Total Compensation can vary significantly across employers,

1 compensation analyses that do not consider Total Compensation are incomplete and  
2 can only provide apples to oranges comparisons.

3 Q. DOES THE COMPANY PROVIDE STI COMPENSATION TO UNION  
4 REPRESENTED EMPLOYEES PURSUANT TO A COLLECTIVE BARGAINING  
5 AGREEMENT?

6 A. Yes, the AEP COMPANIES/IBEW SYSTEM COUNCIL U-9 MASTER  
7 COLLECTIVE BARGAINING AGREEMENT (Effective: April 1, 2018 – March 31,  
8 2021), which includes agreements by and between SWEPCO and IBEW Locals 329,  
9 386 and 738 states (Article X, Benefits, Section 2. (a) p. 52), states: “Employees shall  
10 be permitted to participate in the American Electric Power Companies wide Incentive  
11 Plan (CIP).” This is the same STI plan that SWEPCO seeks to include 100% of the  
12 target level for union represented employees in its cost of service for rate setting  
13 purposes.

14 Q. WHY HAS THE COMPANY INCLUDED THE FULL TARGET VALUE OF STI  
15 COMPENSATION PROVIDED PURSUANT TO A COLLECTIVE BARGAINING  
16 AGREEMENT IN ITS REQUESTED COST OF SERVICE?

17 A. The company included the full target value, not just the portion related to non-  
18 financially based measures, because this Incentive Compensation is a product of a  
19 collective bargaining agreement. As such, it is “presumed to be reasonable” as provided  
20 in PURA, Sec. 14.006. *Interference With Terms Of Conditions Of Employment;*  
21 *Presumption Of Reasonableness.*

22 The commission may not interfere with employee wages and benefits,  
23 working conditions, or other terms or conditions of employment that are  
24 the product of a collective bargaining agreement recognized under

1 federal law. An employee wage rate or benefit that is the product of the  
2 collective bargaining is presumed to be reasonable.

3 Q. HOW DO YOU DETERMINE THAT COLLECTIVELY BARGAINED TOTAL  
4 COMPENSATION LEVELS ARE REASONABLE AND MARKET COMPETITIVE  
5 TO SATISFY THE REASONABLENESS OF COSTS TO THE COMMISSION?

6 A. In accordance with PURA Section 14.006, the Companies' costs incurred under a  
7 collective bargaining agreement are presumed to be reasonable. In addition, the  
8 compensation levels for union represented positions are compared to market-  
9 competitive compensation using the same process described above for other positions.

10 Q. DOES THE TARGET LEVEL OF THE INCENTIVE COMPENSATION PORTION  
11 OF EMPLOYEE PAY CONTRIBUTE TO A TOTAL COMPENSATION  
12 OPPORTUNITY THAT EXCEEDS THE MARKET COMPETITIVE RANGE OR A  
13 REASONABLE LEVEL?

14 A. No. Unlike some other 'bonus' type incentive plans, the Companies' Target level of  
15 Incentive Compensation does not create Total Compensation that is over and above  
16 market-competitive Total Compensation. Instead, the Companies' Incentive  
17 Compensation is a portion of a market-competitive and reasonable Total Compensation  
18 package that the Companies carve out and place at risk to encourage performance  
19 improvement and the achievement of performance goals and objectives.

20 With respect to non-union employees, only the target portion associated with  
21 non-financial goals during the test year, after exclusion of 50% of any financially based  
22 funding mechanism, is included in the Companies' requested cost of service. When  
23 combined with Base Pay, the target value is designed to bring employee Total